LIFE INSURANCE: NEW OPTIONS FOR FEDERAL EMPLOYEES

HEARING

BEFORE THE

SUBCOMMITTEE ON THE CIVIL SERVICE

OF THE

COMMITTEE ON GOVERNMENT REFORM

HOUSE OF REPRESENTATIVES

ONE HUNDRED SIXTH CONGRESS

FIRST SESSION

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CONTENTS

LIFE INSURANCE: NEW OPTIONS FOR FEDERAL EMPLOYEES

TUESDAY, JULY 27, 1999

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON THE CIVIL SERVICE,
COMMITTEE ON GOVERNMENT REFORM,
Washington, DC.

The subcommittee met, pursuant to notice, at 10:25 a.m., in room 2154, Rayburn House Office Building, Hon. Joe Scarborough (chairman of the subcommittee) presiding.

Present: Representatives Scarborough, Morella, Mica, Cummings, and Allen.

Staff present: George Nesterczuk, staff director; Garry M. Ewing, chief legal counsel; Jennifer Hemingway, professional staff member; John Cardarelli, clerk; Tania Shand, minority professional staff member; and Earley Green, minority staff assistant.

Mr. MICA [presiding]. I would like to now reconvene the Subcommittee on the Civil Service, and we will be taking up the question of employee life insurance, FEGLI. I would like to start with an opening statement that I have, and thank, first of all, Chairman Scarborough for convening this hearing today. However, the hearing that is being held today is marking up a bill to bring group universal, group variable universal and voluntary accidental death and dismemberment insurance to our Federal employees. That is what we would be doing if OPM had not dragged its feet in the last Congress.

Last year when I made it clear that these new products should be offered to Federal employees, the Office of Personnel Management objected. They said it was premature to act because the bureaucrats were not ready and were not sure whether Federal employees wanted better insurance options.

Rather than act OPM said we should study the question. But we knew, as anyone familiar with FEGLI should have known, that many Federal employees would be interested in alternatives to term insurance that never builds up a cash value and is not portable. I think we also knew that our Federal employees and retirees would like to have more competitive rates available and, again, additional options in competition in this program. They want the same kind of insurance options that increasing number of private sector employees enjoy. The members of this subcommittee knew that also. That is why the bill passed the House and directed OPM to submit a legislative proposal for offering these new products. We wanted action, not studies. But OPM persuaded the other body, the

Senate, to strip out language that we had approved and substitute a study instead.

Well, the Office of Personnel Management completed its study this past May, and it confirmed what we already knew, that our Federal employees are, in fact, interested in improved coverage that these products would provide. Now OPM tells us that it and others within the administration are talking about making these products available to Federal employees. And OPM tells us that it hopes—no promises, mind you—that these talks will conclude by October 1st. I hope that that means that the administration will submit a legislative proposal in October, but I have my doubts.

In any event, even if OPM presents acceptable legislation in October, I doubt employees will be able to purchase these group products before this Congress adjourns. It took us more than 1 year to get the Federal Employees Life Insurance Improvement Act through the last Congress. So even if the House passes legislation in October of this year, which is highly unlikely, it is even less likely that the Senate would act soon, and possibly not until late in the year 2000; at best another year for OPM to actually implement this badly needed reform.

As a result, it is very unlikely that Federal employees will be able to take advantage of the same kinds of superior insurance plans that are already available to many of their counterparts in the private sector until possibly late in 2001 or maybe even 2002.

In short, after 2 years, some 2 years have passed since I introduced the Federal Employees Life Insurance Improvement Act, we are still talking rather than acting. If there's any light at the end of this tunnel, unfortunately it is very dim.

I am most disappointed again to be here just acting as Chair today and finding that we have not moved forward on this badly needed reform to the benefit of both our Federal employees and our Federal retirees.

I'm pleased now to yield to the ranking member, Mr. Cummings.

Mr. CUMMINGS. Thank you very much, Mr. Chairman. I want to in his absence thank Mr. Scarborough for getting this hearing to the point we have it today, to even having it. And the FEGLI Act of 1998 was the outgrowth of hearings held by this subcommittee in 1997. The act was designed to improve the structure and administration of FEGLI in several important ways. Enrollees now have the opportunity to continue the full extent of their life insurance coverage after they reach age 65. Enrollees will no longer have to seek out a new insurance company from which to purchase insurance, something often difficult and expensive to do in the late stages of life.

I understand, however, that there is some controversy over the manner in which the Office of Personnel Management proposes to implement this provision. OPM determined that a new premium and age band structure would have to be developed. The administrative office of the U.S. Courts, U.S. Courts, is opposed to this action because it would significantly raise the premiums of Federal judges with optional life insurance. I trust that OPM will address this unintended consequence in its testimony.

I am pleased to see that employees may increase family optional insurance from the current fixed amount of $5,000 for a spouse and

$2,500 for each dependent child to up to five multiples of the current amount. This benefit improvement came as a result of an amendment I offered during subcommittee consideration of H.R. 2675 in 1997. In 1999, FEGLI open enrollment period, which ran from April 24th through June 30th, gave Federal employees and retirees the opportunity to take advantage of these new benefit improvements. I look forward to hearing from OPM just how many did so.

More improvements are sure to come. As required by the act, OPM conducted a study of FEGLI and found that enrollees have an interest in a myriad of life insurance products. I would like to hear from both panels their recommendation on legislative changes that may provide new life insurance options for Federal employees. I hope this hearing will be, as was the 1997 FEGLI hearings, the catalyst for innovative and progressive legislation that will result in even better life insurance products for FEGLI employees. Thank you, Mr. Chairman.

Mr. MICA. Thank the gentleman.

Mrs. Morella.

Mrs. MORELLA. Thank you. And I want to thank you and the subcommittee for holding the hearing today to examine the recent changes in the Federal Employees Life Insurance Program. FEGLI is an important program. It provides basic and optional life insurance coverage for almost 2.5 million Federal employees and 1.6 million retirees. I think today's hearing is a good opportunity to discuss the improvements the Office of Personnel Management has made to FEGLI since the President signed the Federal Employees Life Insurance Act into law on October 30, 1998. This act was intended to provide better life insurance benefits to Federal employees under FEGLI.

Among other provisions, the act provides Federal employees with the opportunity to continue the full extent of their life insurance coverage after they reach age 65. Under previous laws, when Federal employees reached age 65, they ceased making premium payments, and the face value of the employees life insurance was reduced by 2 percent each month for 50 months. This change achieves a significant accomplishment by giving Federal retirees the opportunity to continue to purchase life insurance benefits at their own cost, rather than seeing the their coverage phased out.

I received many calls from my constituents expressing concerns about OPM's implementation of regulations to carry out this change, and I hope that today's hearing will give Mr. Flynn the opportunity to respond to those concerns on the record. I am also interested in having OPM respond to concerns several of my constituents raised about recently announced premium increases in FEGLI. I understand that certain FEGLI enrollees who elected the 50 percent reduction or no reduction for basic had premium increases this year. And again, I hope to look to Mr. Flynn to touch on the basis for these premium increases during his testimony.

And finally the Employee Life Insurance Act directed OPM to submit a legislative proposal to offer group universal life insurance and group variable universal life insurance policies under FEGLI within 6 months of enactment, and I understand today's testimony will cover this. I look forward to hearing from OPM on this matter.

Again, I thank you, Mr. Chairman for conducting today's hearing.

Mr. MICA. Thank you.

Mr. I would like to recognize Mr. Allen for his statement.

Mr. ALLEN. Mr. Chairman, I want to thank you and Chairman Scarborough for calling this hearing on the Federal Employees Group Life Insurance Program. I commend your efforts to enhance the financial security of Federal employees and their families. Federal employees should have opportunities and choices in life insurance coverage that are equal to workers' in the private sector. In the difficult period that follows the death of a family member, families deserve the best protections that can be provided. We should enable Federal workers to protect their families in the event of death.

I am pleased that we are considering an extension of services for Federal employees. OPM's study indicates that Federal employees have an interest. These additional life insurance options, additional flexibility and choice in life insurance plans will enable government workers to protect their families in the way that best suits their needs. I hope we soon will provide Federal workers with the protections that a greater variety of life insurance options offers.

Again, thank you, Mr. Chairman, for this opportunity to hear from the panel and consider life insurance options which may become available to Federal employees. I yield back.

Mr. MICA. I thank the gentleman.

I'll now recognize the chairman of the subcommittee who's just arrived for a statement.

Mr. SCARBOROUGH. Thank you, Mr. Chairman. In the last Congress, this subcommittee, as you well know, examined the life insurance benefits offered to Federal employees with the purpose of providing more choices and a better value. Currently the Federal Government offers only term insurance and accidental death and dismemberment insurance through FEGLI, the Federal Employees Group Life Insurance Program. The hearings conducted by the subcommittee last year in the last Congress revealed that private employers are increasingly offering their employees the opportunity to obtain group universal, group variable universal, and voluntary accidental death and dismemberment coverage.

When the first group term coverage was written in this country back in 1911, the average age at death was 49. By 1940, the average age was 65. Today life expectancy is in the 70's and climbing, and over time the price of term insurance has come down. Unfortunately increasing lapse rates have also increased the likelihood of benefits not being available when they are really needed.

With increasing mobility in the future Federal work force, it seems logical for us to follow the lead of the private sector employers in offering additional life insurance products to Federal employees.

No one likes to think about life insurance, but most of us have chosen to purchase it. Insurance companies are now offering a variety of flexible products worthy of consideration. The objective is to select appropriate products that provide individuals long-term satisfaction. Regrettably, for too many years, Federal employees have had only limited life insurance options from which they could choose.

The Metropolitan Life Insurance Co. serves as the primary carrier and has done so since the inception of the program in 1954. MetLife processes all life insurance claims filed and is reimbursed by the Federal Government for all claims paid. Under this arrangement, the Federal Government assumes all the risks, essentially acting as a self-insurer. This is a pertinent fact in considering any additional offerings or alternative to the existing program.

Numerous changes to improve the program took effect upon the enactment of the Federal Employees Life Insurance Improvement Act in October 1998. The Office of Personnel Management is here today to provide us with both an update on the implementation of the act as well as a review of the study conducted on employee interest in additional products. The study analyzed employees' interests in group universal life insurance, group variable universal life insurance, and voluntary accidental death and dismemberment insurance products.

I look forward to the testimony of all of our witnesses in today's oversight of the FEGLI program, and as we further consider options to expand the insurance benefits available to all Federal employees.

Mr. MICA. Thank you.

[The prepared statement of Hon. Joe Scarborough follows:]

ONE HUNDRED SIXTH CONGRESS

Congress of the United States

House of Representatives

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"Life Insurance: New Options for Federal Employees"
Chairman Joe Scarborough
Subcommittee on Civil Service
July 27, 1999

In the last Congress, this subcommittee examined the life insurance benefits offered to federal employees with the purpose of providing employees more choices and better value. Currently, the federal government offers only term life insurance and accidental death and dismemberment insurance through FEGLI, the Federal Employees Group Life Insurance Program. Hearings conducted by the subcommittee in the last Congress revealed that private employers are increasingly offering their employees the opportunity to obtain group universal, group variable universal, and voluntary accidental death and dismemberment coverage.

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With continued talk about increased mobility in the future federal workforce, it seems logical for us to follow the lead of private sector employers in offering additional life insurance products to federal employees.

No one likes to think about life insurance, but most of us have chosen to purchase it. Insurance companies are now offering a variety of flexible products worthy of consideration. The objective is to select appropriate products that provide individuals long-term satisfaction. Regrettably, for too many years, federal employees have had only limited life insurance options from which to choose.

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I look forward to the testimony of our witnesses in today's oversight of the FEGLI program and as we further consider options to expand the insurance benefits available to Federal employees.

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Mr. MICA. At this time there is a vote proceeding. So it's quite fitting that we make OPM wait for their testimony as they forced thousands of our Federal employees and retirees to wait for options on their life insurance. This subcommittee meeting is in recess for approximately 15 minutes, and OPM should not leave the room until we reconvene.

[Recess.]

Mr. SCARBOROUGH [presiding]. I call this hearing back to order; we have on our first panel Ed Flynn III. He is Associate Director of Retirement and Insurance Services for the Office of Personnel Management.

Mr. Flynn, if you could, please stand, and we will administer the oath.

[Witness sworn.]

Mr. SCARBOROUGH. All right. Thank you. Be seated. Welcome back.

Mr. FLYNN. Thank you.

Mr. SCARBOROUGH. And I hope that we did not keep you waiting as long as Mr. Mica would have liked us to.

Mr. FLYNN. Probably not, Mr. Chairman.

Mr. SCARBOROUGH. Actually, I think he asked me if I wanted to take a trip down to Georgia with him when I was over on the House floor, but if you could begin your testimony, it would be great.

STATEMENT OF WILLIAM E. FLYNN III, ASSOCIATE DIRECTOR, RETIREMENT AND INSURANCE SERVICES, OFFICE OF PERSONNEL MANAGEMENT

Mr. FLYNN. Good morning to you and the other members of the subcommittee. I want to thank you for your invitation to discuss the changes that we're putting into place under the Federal Employees Life Insurance Improvement Act, as well as provide you with an update on the 1999 open season and possible new life insurance products.

The Federal Employees Life Insurance Improvement Act authorized a number of changes to respond to participant needs. Numerous changes to improve the life insurance program took effect virtually upon enactment. They included things like increasing the insurance maximums covering foster children under family insurance, the ability to pay premiums directly, and provisions to continue insurance after 2 years, even if the initial coverage was in error. In addition, individuals are able to increase family insurance by substantial amounts, retirees have the option to maintain insurance coverage after age 65, and eligible employees will have insurance portability at group rates during a 3-year demonstration period.

Now, OPM published interim regulations on April 27th of this year. Most premiums have gone down due to improved mortality and a change in the effective date for age-based premium adjustments. The new opportunities for retirees, however, created the need to evaluate the adequacy of existing premium age bands. Consistent with industry practice, optional life insurance premiums have historically been structured in 5-year age bands. The top, age 60 and over band, reflected the fact that once a participant was retired and attained age 65, optional insurance reduced in value by 2 percent a month until it reached zero. Enabling retirees to continue their optional insurance beyond that age will substantially change the number of individuals for whom a substantial benefit will ultimately be paid.

Now, we're required by law to establish premiums for optional life insurance so that the program pays for itself in each age band. With the passage of the law, we initially determined that new premium rates and new age bands were needed for age 65 to 69 and for age 70 and above. At age 70 and above, our calculations indicated that the premium needed to be doubled. The impact of doubling the premium at age 70 and above would constitute a significant and unforeseen change for older employees, and we can find no evidence that this was considered, much less intended, when Congress decided to make unreduced optional insurance coverage available to retirees. For these reasons, no premium increases for older employees will be put into place until we've thoroughly examined alternative approaches, including legislative options. The earliest any change could take effect is April 24, 2001. Now, we'll complete our review well in advance of that date and then make proposals for the life insurance programs that flow from it.

However, premiums did increase effective May 1st for current retirees who previously elected to continue their basic life insurance after age 65 without a reduction or with a reduction limited to 50 percent. Because some retirees objected to the increase, we have advised them that they may change to a 75 percent reduction at anytime, and that if they request that change by July 30th, we'll refund the extra premiums they have paid since May.

We've also advised annuitants over age 65 whose option B insurance has started to reduce already that they have until October of this year to elect to freeze their coverage at the April 1999 amount and the premium charge necessary to honor that election.

Now, the life insurance open enrollment period did run from April 24th through June 30th of this year. Extensive information was made available in many different forms, and by all accounts interest in the opportunity was high. Agencies just did a tremendous job working in cooperation with us to make sure that employees and others had all the information they needed and to change and alter their systems in ways that enabled those open enrollment changes to be accommodated. Nonetheless, it will be at least a year before we have any data on open season enrollment activity. Employees register their life insurance change with their agencies, and the changes aren't effective until April 2000. So the earliest we'll see any data resulting from the open enrollment period will be in September 2000, indicating data as of the end of June of that year.

Besides improving the existing Federal Employees Group Life Insurance Program, we were asked to survey and submit a report on the desirability of offering new life insurance products. These products include a group universal life, variable group universal life, and voluntary death and dismemberment insurance. About 37 percent of the populations identified responded to our survey. While respondents who participate in the life insurance program are largely very satisfied with the present coverage, they are also interested in new types of products, including those that accumulate cash value. Among the insured group 42 percent expressed interest in group universal life, 23 percent interested in variable group universal life, and about 48 percent indicated they would consider voluntary accidental death and dismemberment insurance. Significantly fewer of the noninsured population indicated interest in new group products.

Now, these overall findings have prompted us to initiate discussions within the administration to examine offering each of the products we were directed to study, and we hope to conclude these discussions by the end of the fiscal year. Life insurance is an important component in a well-balanced employee benefits package. The new products we are discussing could provide substantial benefits to Federal employees who are interested in group insurance products that offer maximum flexibility to plan for life cycle financial needs.

We place high priority on working with this subcommittee and others to respond to the diverse needs of a Federal work force and enable the government to remain a competitive employer.

That concludes my statement, Mr. Chairman, and I'd be happy to try and respond to any questions you may have.

Mr. SCARBOROUGH. Thank you, Mr. Flynn.

[The prepared statement of Mr. Flynn follows:]

STATEMENT OF
WILLIAM E. FLYNN, III
ASSOCIATE DIRECTOR FOR RETIREMENT AND INSURANCE
U.S. OFFICE OF PERSONNEL MANAGEMENT

at an oversight hearing of the

SUBCOMMITTEE ON CIVIL SERVICE
COMMITTEE ON GOVERNMENT REFORM
U.S. HOUSE OF REPRESENTATIVES

on

FEDERAL EMPLOYEES GROUP LIFE INSURANCE

July 27, 1999

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

THANK YOU FOR YOUR INVITATION TO DISCUSS THE CHANGES WE ARE PUTTING INTO PLACE UNDER THE FEDERAL EMPLOYEES LIFE INSURANCE IMPROVEMENT ACT, PUBLIC LAW 105-311, APPROVED ON OCTOBER 30, 1998, AS WELL AS AN UPDATE ON THE 1999 OPEN SEASON AND POSSIBLE NEW LIFE INSURANCE PRODUCTS. THE INVITATION ALSO ASKED US TO PROVIDE SEVERAL KINDS OF BACKGROUND MATERIAL WITH TODAY'S STATEMENT. TO THE EXTENT MATERIALS WERE READILY AVAILABLE, WE HAVE COMPLIED, AND WE WILL BE HAPPY TO PROVIDE ADDITIONAL MATERIAL FOR THE RECORD AS SOON AS IT IS AVAILABLE.

THE FEDERAL EMPLOYEES' GROUP LIFE INSURANCE PROGRAM HAS PROVIDED

LOW-COST, GROUP TERM INSURANCE TO FEDERAL EMPLOYEES AND RETIREES SINCE 1954. EARLY COVERAGE ESSENTIALLY ACCORDED ALL ELIGIBLE EMPLOYEES LIFE INSURANCE TO REPLACE 1 YEAR'S SALARY AND AN EQUAL AMOUNT OF ACCIDENTAL DEATH AND DISMEMBERMENT PROTECTION, AND LIMITED POST-RETIREMENT COVERAGE. GRADUALLY, THE PROGRAM EXPANDED TO OFFER FLEXIBILITY TO BETTER ADDRESS INDIVIDUAL CIRCUMSTANCES. IN 1968, IT ADDED $10,000 OPTIONAL LIFE INSURANCE WITH EQUAL ACCIDENTAL DEATH AND DISMEMBERMENT PROTECTION (OPTION A) ON AN EMPLOYEE-PAY-ALL BASIS. LATER, IN 1981, CAME ADDITIONAL OPTIONAL LIFE INSURANCE IN MULTIPLES OF ONE TO FIVE TIMES THE EMPLOYEE'S PAY (OPTION B), FAMILY OPTIONAL INSURANCE (OPTION C), AND INCREASED POST-RETIREMENT BASIC INSURANCE--ALL ON A SELF-PAID BASIS. AND, IN 1995, THE PROGRAM INTRODUCED ACCELERATED PAYMENT OPTIONS FOR TERMINALLY-ILL EMPLOYEES AND RETIREES.

THE NEW LEGISLATION

THE 1998 "FEDERAL EMPLOYEES LIFE INSURANCE IMPROVEMENT ACT" AUTHORIZES YET MORE FLEXIBILITY TO RESPOND TO EACH ENROLLEE'S PARTICULAR NEEDS. THIS LAW ESSENTIALLY REFLECTS PROPOSALS WE DEVELOPED FOLLOWING THIS SUBCOMMITTEE'S APRIL 30, 1997, OVERSIGHT HEARING ON THE FEDERAL EMPLOYEES' GROUP LIFE INSURANCE PROGRAM.

WE REVIEWED CONCERNS RAISED BY PROGRAM PARTICIPANTS AND MEMBERS OF CONGRESS CONCERNING BENEFIT LEVELS AND LOSS OF GROUP LIFE INSURANCE WHEN EMPLOYEES LEAVE FEDERAL SERVICE OR RETIRE. WE ALSO IDENTIFIED SOME STATUTORY IMPEDIMENTS TO EFFICIENT ADMINISTRATION.

NUMEROUS CHANGES TO IMPROVE PROGRAM ADMINISTRATION TOOK EFFECT VIRTUALLY UPON ENACTMENT OF PUBLIC LAW 105-311. THESE INCLUDE:

- REPEAL OF THE MAXIMUM LIMITATION ON EMPLOYEE PAY THAT DETERMINES BASIC INSURANCE AND OPTION B--ADDITIONAL LIFE INSURANCE;

- EXPANDED ELIGIBILITY UNDER FAMILY OPTIONAL INSURANCE TO INCLUDE AN ENROLLEE'S QUALIFIED FOSTER CHILD;

- AUTHORITY FOR DIRECT PAYMENT OF PREMIUMS WHENEVER PAY, ANNUITY, OR COMPENSATION FOR JOB-RELATED INJURY IS INSUFFICIENT TO COVER INSURANCE WITHHOLDINGS; AND

- AUTHORITY TO CONTINUE AN ERRONEOUS LIFE INSURANCE ENROLLMENT AFTER COVERAGE AND WITHHOLDINGS HAVE BEEN IN

FORCE 2 YEARS OR MORE.

PROGRAM PARTICIPANTS ARE ALSO ELIGIBLE FOR SIGNIFICANT BENEFIT IMPROVEMENTS:

- EMPLOYEES MAY INCREASE FAMILY OPTIONAL INSURANCE, FROM THE CURRENT FIXED AMOUNTS OF $5,000 FOR A SPOUSE AND $2,500 FOR EACH DEPENDENT CHILD, TO UP TO 5 MULTIPLES OF THE CURRENT AMOUNTS;

- AN EMPLOYEE ELIGIBLE TO CONTINUE OPTION B--ADDITIONAL OR OPTION C--FAMILY OPTIONAL INSURANCE AFTER RETIREMENT MAY ELECT TO PAY ADDITIONAL PREMIUMS TO AVOID A REDUCTION IN COVERAGE AFTER AGE 65; AND

- AN EMPLOYEE WHO LEAVES SERVICE BEFORE RETIREMENT MAY CONTINUE ADDITIONAL OPTIONAL INSURANCE THAT HAS BEEN IN FORCE FOR 5 YEARS, OR FROM FIRST OPPORTUNITY TO ENROLL, AT GROUP RATES DURING A 3-YEAR DEMONSTRATION.

ALSO, RETIREES WHO HAVE ANY OPTION B--ADDITIONAL LIFE INSURANCE STILL IN FORCE AS OF APRIL 24, 1999 MAY ELECT TO PAY PREMIUMS TO AVOID

ANY FURTHER REDUCTION IN THEIR OPTION B COVERAGE.

NEW PREMIUM RATES

THE NEW OPPORTUNITY FOR RETIREES TO PAY TO CONTINUE UNREDUCED OPTIONAL INSURANCE COVERAGES BEYOND AGE 65 CREATED A NEED TO REEVALUATE THE ADEQUACY OF EXISTING PREMIUM AGE BANDS. CONSISTENT WITH INDUSTRY PRACTICE, OPTIONAL LIFE INSURANCE PREMIUMS HAVE HISTORICALLY BEEN STRUCTURED IN 5-YEAR AGE BANDS UP TO "AGE 60 AND OVER." THE TOP AGE-60-AND-OVER BAND REFLECTED THE FACT THAT, ONCE AN ENROLLEE WAS RETIRED AND ATTAINED AGE 65, OPTIONAL INSURANCE ULTIMATELY REDUCED IN VALUE BY 2 PERCENT PER MONTH OVER 50 MONTHS UNTIL IT EXPIRED. THE NEW AVAILABILITY OF UNREDUCED OPTION B COVERAGE (UP TO FIVE MULTIPLES OF PAY) FOR RETIREES WILL SUBSTANTIALLY CHANGE THE COMPOSITION OF THE POOL OF INDIVIDUALS OVER AGE 65 FOR WHOM SUBSTANTIAL BENEFITS EVENTUALLY WILL BE PAID.

WE ARE REQUIRED BY LAW TO ESTABLISH PREMIUMS FOR OPTION B LIFE INSURANCE SO THAT THE PROGRAM PAYS FOR ITSELF IN EACH AGE BAND. THE AMENDMENTS PASSED INTO LAW LAST YEAR LED US TO REVIEW THE COMPOSITION OF WHAT WAS PREVIOUSLY A SINGLE, AGE 60 AND OVER, RISK

POOL. WE INITIALLY DETERMINED THAT NEW PREMIUM RATES WERE NEEDED, TOGETHER WITH NEW AGE BANDS, FOR AGE 65 TO 69 AND FOR AGE 70 AND ABOVE. WE PROPOSED THAT AT AGE 70 AND ABOVE, THE PREMIUM NEEDED TO BE DOUBLED. WE HAVE REVIEWED THOSE CALCULATIONS AND FOUND THEM TO BE ACCURATE.

NONETHELESS, THE IMPACT OF DOUBLING THE PREMIUM AT AGE 70 AND ABOVE WOULD CONSTITUTE A SIGNIFICANT AND UNFORESEEN CHANGE FOR OLDER EMPLOYEES. WE CAN FIND NO EVIDENCE THAT THIS WAS CONSIDERED, MUCH LESS INTENDED, WHEN CONGRESS DECIDED TO MAKE UNREDUCED OPTIONAL INSURANCE COVERAGE AVAILABLE TO RETIREES. OUR CONTEMPORARY ANALYSIS OF THE PROPOSED CHANGE NOTED THE NEED FOR NEW AGE BANDS AND PREMIUMS, BUT DID NOT ADDRESS THEIR EFFECT ON EMPLOYEES WHO WORK BEYOND AGE 65.

FOR THESE REASONS, WE HAVE DETERMINED THAT NO PREMIUM INCREASES FOR OLDER EMPLOYEES SHOULD BE PUT IN PLACE UNTIL WE HAVE THOROUGHLY EXAMINED ALTERNATIVE APPROACHES, INCLUDING LEGISLATIVE OPTIONS. THE EARLIEST THAT ANY CHANGE FROM CURRENT AGE BANDS AND PREMIUM RATES WOULD TAKE EFFECT IS APRIL 24, 2001. WE EXPECT TO COMPLETE OUR REVIEW OF ALTERNATIVES WELL IN ADVANCE OF THAT DATE, AND THEN TO MAKE PROPOSALS FOR THE LIFE INSURANCE

PROGRAM FLOWING FROM IT.

OPM PUBLISHED INTERIM REGULATIONS ON APRIL 27, 1999. MOST EXISTING RATES HAVE GONE DOWN DUE TO IMPROVED MORTALITY EXPERIENCE AND OUR DECISION TO MOVE THE EFFECTIVE DATE FOR AGE-BANDED PREMIUM RATE ADJUSTMENTS TO THE FIRST PAY PERIOD FOLLOWING THE PERIOD IN WHICH A DETERMINING BIRTHDAY OCCURS, INSTEAD OF THE BEGINNING OF THE FOLLOWING YEAR.

HOWEVER, PREMIUMS DID INCREASE EFFECTIVE MAY 1 FOR CURRENT RETIREES WHO PREVIOUSLY ELECTED TO CONTINUE BASIC LIFE INSURANCE AFTER AGE 65 WITHOUT REDUCTION, OR WITH A REDUCTION LIMITED TO 50 PERCENT. ON MAY 25, WE NOTIFIED RETIREES WHO CHOSE TO CONTINUE BASIC INSURANCE WITHOUT THE TRADITIONAL 75 PERCENT REDUCTION AFTER AGE 65 THAT THEY WOULD SEE INCREASED ANNUITY WITHHOLDINGS IN THEIR JUNE 1 ANNUITY CHECK. RETIREES WERE UPSET ABOUT THE NOTIFICATION. HOWEVER, ANNUITANTS MAY CHANGE TO THE 75 PERCENT REDUCTION AT ANYTIME AND WE HAVE ADVISED ANNUITANTS THAT IF THEY REQUEST A CHANGE BY JULY 30 WE WILL MAKE IT RETROACTIVE TO MAY 1 AND WILL REFUND THE EXTRA PREMIUMS PAID SINCE THAT DATE.

WE ALSO SENT INDIVIDUAL NOTICES TO ANNUITANTS WHO HAVE OPTION B--

ADDITIONAL OPTIONAL LIFE INSURANCE STILL IN FORCE TO EXPLAIN THE OPPORTUNITY TO AVOID REDUCTION OF COVERAGE THEY HAD AS OF APRIL 24, 1999, AND WHAT THE PREMIUM COST WILL BE. WE ADVISED ANNUITANTS OVER AGE 65 WHOSE OPTION B HAS STARTED TO REDUCE THAT THEY HAVE UNTIL OCTOBER 24, 1999, TO ELECT TO FREEZE THEIR COVERAGE AT THE APRIL 24, 1999 AMOUNT.

1999 OPEN ENROLLMENT PERIOD

THE 1999 FEDERAL EMPLOYEES' GROUP LIFE INSURANCE OPEN ENROLLMENT PERIOD RAN FROM APRIL 24 THROUGH JUNE 30. SHIPMENT ON AGENCY ORDERS FOR OPEN ENROLLMENT MATERIALS BEGAN THE WEEK OF APRIL 19. PRIOR TO THIS, WE ISSUED 10 BENEFITS ADMINISTRATION LETTERS TO AGENCIES THAT DISCUSSED NEW PROGRAM FEATURES AND PROCEDURES FOR CONDUCTING THE OPEN SEASON. THE LETTERS GAVE AGENCIES A SPECIAL TELEPHONE HOTLINE FOR THEIR QUESTIONS ABOUT THE NEW LAW, AND DIRECTED AGENCIES AND THEIR EMPLOYEES TO THE LIFE INSURANCE OPEN ENROLLMENT HOME PAGE AT OPM'S WEBSITE FOR MORE OPEN ENROLLMENT PERIOD INFORMATION.

ONE OF THE FEATURES OF THE HOME PAGE IS A LIFE INSURANCE CALCULATOR THAT SHOWS USERS THE COST OF INSURANCE ELECTIONS THEY

ARE CONSIDERING BASED ON THE INDIVIDUAL'S AGE AND SALARY LEVEL. WE REGISTERED WELL OVER 10,000 VISITS TO THIS HOME PAGE PER WEEK IN THE EARLY WEEKS OF MAY AND HAVE RECEIVED VERY FAVORABLE FEEDBACK ON ITS CONTENTS. IN ADDITION, THE OPEN ENROLLMENT SEASON WAS THE FOCUS OF A GOVERNMENTWIDE SATELLITE BROADCAST ON MAY 12 AND WE MADE A VIDEO OF THE BROADCAST AVAILABLE TO ALL AGENCIES, PLUS TWO SPECIAL VIDEOS TO EXPLAIN OPEN SEASON OPTIONS. WE ALSO PARTICIPATED IN A RADIO PROGRAM ABOUT THIS EVENT AND WE INTRODUCED THE FIRST INTERACTIVE COMPACT DISK ON THE LIFE INSURANCE PROGRAM.

IT WILL BE AT LEAST A YEAR BEFORE WE HAVE ANY DATA ON OPEN SEASON ENROLLMENT ACTIVITY. EMPLOYEES REGISTER LIFE INSURANCE CHANGES WITH THEIR EMPLOYING AGENCIES AND THE CHANGES ARE NOT EFFECTIVE UNTIL APRIL 2000. CONTRIBUTION REPORTS TO OPM WILL NOT REFLECT OPEN SEASON ACTIVITY UNTIL THEN. DURING THE INTERIM, SOME EMPLOYEES WILL SEPARATE BEFORE ELECTIONS BECOME EFFECTIVE AND OTHERS MAY CHOOSE TO CANCEL ELECTIONS.

REPORT ON NEW LIFE INSURANCE PRODUCTS

BESIDES IMPROVING THE EXISTING FEDERAL EMPLOYEES' GROUP LIFE

INSURANCE PROGRAM, PUBLIC LAW 105-311 DIRECTED US TO CONDUCT A STUDY, AND SUBMIT A REPORT TO THE CONGRESS, ON THE DESIRABILITY OF OFFERING FEDERAL EMPLOYEES CERTAIN NEW LIFE INSURANCE PRODUCTS. THESE PRODUCTS INCLUDED GROUP UNIVERSAL LIFE INSURANCE, VARIABLE GROUP UNIVERSAL LIFE INSURANCE, AND VOLUNTARY DEATH AND DISMEMBERMENT INSURANCE.

UNIVERSAL LIFE PRODUCTS INCLUDE TWO DISTINCT COMPONENTS CONSISTING OF TERM LIFE INSURANCE AND AN INDIVIDUAL CASH ACCUMULATION ACCOUNT. NET PREMIUM PAYMENTS AFTER CHARGES FOR CURRENT LIFE INSURANCE PROTECTION ACCRUE IN A CASH ACCOUNT FOR THE INSURED INDIVIDUAL. WITH GROUP UNIVERSAL LIFE POLICIES, THE INSURER INVESTS THE CASH ACCOUNT FOR A GUARANTEED RETURN. WITH VARIABLE GROUP UNIVERSAL LIFE POLICIES, THE INSURED INDIVIDUAL DIRECTS INVESTMENT OF THE CASH ACCOUNT IN ANY OF A SERIES OF INVESTMENT FUNDS OFFERING VARIED FINANCIAL RISK. BOTH POLICIES EARN TAX-DEFERRED INTEREST. THE CASH ACCOUNT IS ACCESSIBLE FOR LOANS OR WITHDRAWALS, OR TO PURCHASE ANNUITY OR PAID-UP INSURANCE AT SOME POINT. IN CONTRAST, THE EXISTING FEDERAL EMPLOYEE PROGRAM ESSENTIALLY OFFERS ONLY CURRENT TERM PROTECTION. VOLUNTARY ACCIDENTAL DEATH AND DISMEMBERMENT INSURANCE OFFERS NO CASH VALUE AND PROVIDES BENEFITS ONLY FOR

ACCIDENTAL DEATH OR INJURY WHICH MAKES IT QUITE INEXPENSIVE.

AS PART OF THE 1998 FEDERAL EMPLOYEES GROUP LIFE INSURANCE CUSTOMER FEEDBACK SURVEY, WE INCLUDED A SERIES OF QUESTIONS ON GROUP UNIVERSAL LIFE, VARIABLE GROUP UNIVERSAL LIFE, AND VOLUNTARY ACCIDENTAL DEATH AND DISMEMBERMENT INSURANCE, WITH PRODUCT DESCRIPTIONS AND SAMPLE PREMIUMS. THE SURVEYS WERE DISTRIBUTED TO BOTH PARTICIPATING AND NON-PARTICIPATING FEDERAL EMPLOYEES AND THE NET EFFECTIVE RESPONSE RATES WERE 37.7 PERCENT AND 36.7 PERCENT RESPECTIVELY. THIS SURVEY, TOGETHER WITH OUR RESEARCH OF CURRENT LITERATURE WAS THE BASIS FOR OUR REPORT TO CONGRESS ON MAY 4, 1999.

OUR CUSTOMER SURVEY SHOWED THAT WHILE RESPONDENTS WHO PARTICIPATE IN THE FEDERAL EMPLOYEE LIFE INSURANCE PROGRAM ARE LARGELY VERY SATISFIED WITH PRESENT COVERAGE, THEY ALSO HAVE INTEREST IN NEW TYPES OF PRODUCTS, INCLUDING THOSE THAT ACCUMULATE CASH VALUE. AMONG THE ENROLLED GROUP, 42 PERCENT EXPRESSED INTEREST IN GROUP UNIVERSAL LIFE, 23 PERCENT HAD AN INTEREST IN VARIABLE GROUP UNIVERSAL LIFE, AND 48 PERCENT INDICATED THEY WOULD CONSIDER VOLUNTARY ACCIDENTAL DEATH AND DISMEMBERMENT INSURANCE. SIGNIFICANTLY FEWER OF THE NON-

ENROLLED POPULATION INDICATED INTEREST IN NEW GROUP PRODUCTS. OUR LITERATURE SEARCH REVEALED THAT WHILE UNIVERSAL LIFE PRODUCTS ARE A RELATIVELY SMALL AND STILL EVOLVING MARKET, THEY HAVE BEEN STEADILY INCREASING IN OVERALL MARKET SHARE AND, BY SOME ESTIMATES, MAY EVENTUALLY ATTRACT 50 PERCENT OF THE TOTAL MARKET.

THESE FINDINGS HAVE PROMPTED US TO INITIATE DISCUSSIONS WITHIN THE ADMINISTRATION TO EXAMINE THE OFFERING OF EACH OF THE INSURANCE PRODUCTS THAT WE WERE DIRECTED TO STUDY. WE HOPE TO CONCLUDE THESE DISCUSSION IN THE NEAR FUTURE. WHILE I CANNOT SAY WITH ABSOLUTE CERTAINTY, I EXPECT WE SHOULD CONCLUDE THE PROCESS BY THE FIRST OF OCTOBER.

LIFE INSURANCE IS AN IMPORTANT COMPONENT IN A WELL-BALANCED EMPLOYEE BENEFITS PACKAGE. THE NEW PRODUCTS WE ARE DISCUSSING COULD PROVIDE SUBSTANTIAL BENEFIT TO FEDERAL EMPLOYEES WHO ARE INTERESTED IN GROUP INSURANCE PRODUCTS THAT OFFER MAXIMUM FLEXIBILITY TO PLAN FOR LIFE-CYCLE FINANCIAL NEEDS. OPM PLACES HIGH PRIORITY ON WORKING WITH THIS SUBCOMMITTEE AND OTHER STAKEHOLDERS TO IDENTIFY INNOVATIVE EMPLOYEE BENEFITS THAT WILL BEST RESPOND TO THE DIVERSE NEEDS OF THE FEDERAL WORKFORCE AND

WILL ENABLE THE GOVERNMENT TO REMAIN A COMPETITIVE EMPLOYER.

THIS CONCLUDES MY REVIEW OF CURRENT DEVELOPMENTS IN THE FEDERAL EMPLOYEES GROUP LIFE INSURANCE PROGRAM. I WILL GLADLY RESPOND TO ANY QUESTIONS YOU HAVE AT THIS TIME.

Mr. SCARBOROUGH. According to your testimony, OPM is not going to know the results of the open season for another year. Tell me, do the results of who signed up for how much insurance matter to you, to OPM, at all, and if so, what impact does that have on how you administer the program in the future?

Mr. FLYNN. Well, they do matter, Mr. Chairman. There were a number of improvements that were offered as a result of the act passed last October, but those improvements are law and needed to be required. So the actual physical count results of the open season, while they do matter, aren't of immediate interest right now. If we needed to know a piece of it, we could certainly do some surveys and get a rough idea of—of the open season activity, but for right now, it's not terribly important. The benefit changes are not effective, and your premium rates for the open season changes don't go into effect for a year or so. So it's not—it's not any difficult—any difficulty to administer it.

Mr. SCARBOROUGH. So you're not going around right now from agency to agency trying to figure out the number of individuals who elected to take these options during the open season?

Mr. FLYNN. No, we are not, and it's similar to the way in which we operate the Federal Employee Health Benefits Program. We typically don't know what changes occurred during the open enrollment period until we get reports from the central personnel data file in the spring following the effective date of those changes.

Mr. SCARBOROUGH. And again, the reason why you say it is just not relevant right now?

Mr. FLYNN. It's not something that we need to know in order to administer the program.

Mr. SCARBOROUGH. OK. You know, I and many other Members of Congress have heard complaints from Federal employees regarding—retirees about the new rates that OPM instituted, which you alluded to, especially the rates for the new age brackets. Rates for those over 70 doubled, according to your testimony, and you have also said that these rates are based upon mortality experience, and that the availability of unreduced option B coverage will, quote, substantially change the composition of the pool of individuals over 65 who will be eligible for the benefits.

Let me ask you, how frequently does OPM review the rates, and how frequently do you adjust the rates for FEGLI premiums?

Mr. FLYNN. Well, we have an on-going process of reviewing the experience of the program and the experience of the program relative to the rates that are being charged. I know that you asked in advance of the hearing for information about the number of occasions on which rates have been changed, and you can see that there is a—there is a history of that. They are not on a regular schedule, but every several years you do see rates change.

The important thing here I think is if you look at the rates that went into effect coincident with this open season, we had for some time a review of the adequacy of rates for all of the different options that are available to people under way, and with the advent of an open enrollment period, we felt it was appropriate to institute the new rates at the same time so that people could make choices with an open—with everything out in front of them, understanding full well the financial implications of those choices as well.

Mr. SCARBOROUGH. Do you negotiate or consult with the carrier on setting the FEGLI premiums?

Mr. FLYNN. Mr. Chairman, I'm glad you asked that question, because a lot of discussion ensues about the competitiveness of this program. Let me try and respond to this very quickly, but very simply. Many people believe that rates in the Federal Employees Group Life Insurance Program are noncompetitive because we have this monopolistic relationship with the Metropolitan Life Insurance Co. That is simply not the case.

There are three components that go to make up the cost of this program: the cost of actually paying claims, the reimbursement to Metropolitan Life for the administrative expenses they incur in paying claims, and a service charge or a profit that they are entitled to for their performance under the contract. The latter two categories, the administration of the program and the service charge, account for $1.73 per person per year of cost in this program. The overwhelming majority of cost in this program, $1.6 billion in 1998, was simply the payment of life insurance claims that were due to individuals and estates when people passed on.

So to assume that, that somehow or another these rates are not competitive for that reason, I think, is pretty much set aside by those figures.

Now, it is true that this program, when compared selectively to other types of term life insurance products, looks like it costs too much, but I will tell you that there are two reasons for that. The first is the population that were covered and the particular demographic characteristics that that population presents, and the second are statutorily mandated features of this program in terms of its benefit design and in terms of its financing that—that just simply make it that way.

But to somehow create the impression that 4 years of working with a particular organization creates noncompetitive premiums is just simply not the case, Mr. Chairman.

Mr. SCARBOROUGH. It certainly—if it's 40 years of a productive relationship, that obviously can be used to help us move forward over the next 40 years. But getting back to the question on Met Life, do you negotiate or consult with Met Life on setting the premiums?

Mr. FLYNN. We consult extensively with Metropolitan Life, though the premiums are OPM's to set.

Mr. SCARBOROUGH. And Mr. Mica would argue, as many others would argue, that the disproportionate risk is on OPM and not the carrier, while the carrier makes—Mr. Mica I'm sure would characterize it as a cash cow or something colorful like that. What would you say to such criticism, and is the risk shared between carrier and OPM, or does OPM bear the burden?

Mr. FLYNN. Well, ultimately, because of the unique legislative structure of this relationship, the Metropolitan Life Insurance Co. ultimately carries risk here, but I think as was demonstrated in testimony on this program a year or so ago, on any long-term relationship like this, sooner or later premiums reflect the cost of the program, and risk is reflected in the premiums that are charged, and I think that's clearly the case with this program.

Mr. SCARBOROUGH. OK. And obviously we can get more extensive testimony from representatives from Met Life who can help fill in the lines, too, about the risk they do undertake.

You testified that the composition of the pool was substantially changed. What is the basis for that statement? And in setting new rates, what assumptions did you make concerning the number of employees who will elect to carry the full face value of option B insurance well into retirement?

Mr. FLYNN. Well, actually you're absolutely correct, Mr. Chairman. When I made that statement, I was talking about the number of individuals who will elect option B and carry it unreduced beyond the age of 65. When that option becomes available, you increase the likelihood that some people will find it attractive because it's a new option that was not available to them before, and that then increases the likelihood that substantial numbers of people beyond the age of 65 will present full face value claims for life insurance at some point, and because of that and the fact that prior to that the face value of the insurance began to reduce by 2 percent a month, until it reduced to zero, it is important to look at and project what we think the new experience will be under that option and to set premiums accordingly.

Mr. SCARBOROUGH. You had said something, and this is the last question I will ask this round before turning it over to Mr. Cummings, but I just wanted you to expand on something for me. You had said a few questions back—I'd asked you about the risk and why rates were going up, and you talked about the challenges, sort of the demographic challenges that are unique to this group of insureds. Could you help me out there?

Mr. FLYNN. I don't know that it is demographic challenges, but if you look at the Federal work force and contrast it with groups that are insured by others, and don't adjust for the differences in the two groups and their mortality experience and things like that, you can come away with a comparison, one relative to the other, that's actually flawed. The Federal Government on average is older. People who come to work for the Federal Government aren't able to or—or are, in fact, enrolled in life insurance from the start. We have 80 percent or thereabouts in it, but there is no underwriting initially and things like that. Those are the kinds of things that I was talking about. You take those into account and look at how others may structure the various pools of individuals that they insure, you will see differences that cause some of the differences in the rates.

Mr. SCARBOROUGH. OK. Thanks.

Mr. Cummings.

Mr. CUMMINGS. It's very interesting. I just want to followup on what you were just talking about. So the Federal Government, other than having older workers, what other factors would make our population different and more unique than, say, the average population, other than the fact that they are older? I take it that what happens is that people in the Federal Government come in, and they may—as you were talking, I was thinking, trying to compare to the private sector and government, and one of the things I thought about was when you're talking about the private sector, you have people moving from job to job to job, they may not necessarily—especially in the last 20 years, they may not stay with that employer, but yet still in the government, they may move from job to job to job, but they are still staying under the umbrella of the Federal Government. I mean, is that part of it?

Mr. FLYNN. That's part of it. I think another part of it, and none of these things can ever be considered completely in a vacuum, but the other part of it is if you look at the number of people who are participating in the life insurance program compared to the number of people who work for the Federal Government at large, there will be differences between those two as well.

What we have seen, and it's been commented on by various observers of this program for some time now, is that with the creation of term life insurance products in the private sector that—that are themselves age-based, that differentiate between risk pools in terms of gender, in terms of health status, that require various forms of underwriting, what you quickly find, Mr. Cummings, is that Federal employees, generally speaking, who are relatively young and relatively healthy can move out of the Federal Employees Group Life Insurance Program and purchase term life insurance products on the private market at less cost than what they would pay in the Federal Government, even with the government contribution, particularly true for optional insurance. And so when those people begin to leave the Federal Employees Group Life Insurance Program, those that remain become even more unique in their characteristics and more likely to require the payment of additional claims and higher costs, which over time results in higher premiums.

That's a tendency or that's a trend that concerns us very much at the Office of Personnel Management. It's one that we've watched, but the point I was trying to make earlier was that it's not a function of a contractual relationship. It's a function of statutory construction of the benefit design of the program and the mechanism for financing.

Mr. CUMMINGS. I want to get to that, but I want to go back to what you have just said.

So do we see a lot of that, that is, Federal employees who start off with the Federal life insurance program, and then as they mature, they then see that they can do this, get life insurance cheaper and move out; do you see a lot of that, and how would you know that other than them saying, we no longer——

Mr. FLYNN. We have to look at it sort of from our vantage point, but if we look at the program, we do see fairly high levels of enrollment in basic insurance. And remember, Mr. Cummings, there are four different types of life insurance that one can buy here, but we have about 80 percent participation in basic. It's a level premium regardless of age. In part because we were seeing people leave the program at younger ages, we created some incentives a few years ago through the Congress to keep them in the program, but we have about 80 percent of the population eligible to enroll in basic.

Option A, which is a $10,000 increment additional insurance, has about 40 percent of the population that's eligible to enroll in it. Option B has about 34 percent. Option C, which is—option B, which is multiples of salary, and option C has about 33½ percent. So you can see, once you get away from the basic insurance, you get to these age-based premiums for optional insurance, there are substantial numbers of people in the program, and it serves a vital need for many of them, but there are also substantial numbers of people who are meeting their insurance needs elsewhere, I suspect in large measure because it's financially more advantageous for them to do that.

Mr. CUMMINGS. Then that certainly leads me to this other area that you discussed. You said a few years ago we did some things to try to make sure we kept people in the program, and do you think that those efforts to keep people in the program have been successful?

Mr. FLYNN. I think that they are successful, particularly if you look at the participation rates in basic insurance. Eighty percent is pretty good. I think the real challenge is to take steps as an employer to offer benefit options to people that are attractive to them, that meet a diverse array of needs, and that—and where we do have good participation, and that's one of the reasons that we have looked at some of these new insurance products to see whether or not we can do that with them.

Mr. CUMMINGS. Now, this $1.73 per person per year——

Mr. FLYNN. Per year, right. Let me give you the absolute numbers just to put it perhaps in a little perspective as well.

As I said earlier, $1.6 billion paid out in life insurance claims. That is just simply face value of life insurance to beneficiaries. The administrative cost to do that ran $7.1 million, and the service charge or profit participation was $500,000.

Mr. CUMMINGS. You said if we tried to do some comparisons or contrasts, at first one might conclude that, well, maybe the Federal employees are paying a bit much more; not a lot more, but more. Is that a fair statement, at first glance?

Mr. FLYNN. It is a fair statement, and it's particularly fair if you look at the optional insurance, the age-based insurance, yes, sir.

Mr. CUMMINGS. And then you went on to say that you have to look a little deeper and a little closer, and you will see that because of population and statutory mandated benefits, it's probably not as bad as it may look at first glance. Is that a fair statement?

Mr. FLYNN. Exactly.

Mr. CUMMINGS. OK.

Mr. FLYNN. People are getting the benefits that they are paying for, and nobody is getting rich or fat off of this program.

Mr. CUMMINGS. That's where I need to get to. If most of the money is being paid, the vast majority is being paid for the claims, when you say statutorily mandated benefits, I take it that there's a direct correlation there between the statutorily mandated benefits and the claims that are paid. Is that a fair statement?

Mr. FLYNN. Absolutely, direct one for one.

Mr. CUMMINGS. OK. So then we put that to the side, and then we go to the $1.73. I mean, we're trying to figure out whether or not—going back to Mr. Scarborough's question about Metropolitan and whether you consulted and all that stuff. So then we go to back to the $1.73. The $1.73, is that higher than, say, if you were to compare it to other groups and you took out all of the differences that you talked about a little bit earlier?

Mr. FLYNN. Mr. Cummings.

Mr. CUMMINGS. I'm not saying it is. I'm just trying to get down to the bottom line to make sure that we're getting a good deal from Metropolitan. I guess that's what I'm trying to get to.

Mr. FLYNN. I think we're getting a very good deal. This, for all practical purposes, is nothing in the cost, in the context of the cost of this program, nothing at all.

Mr. CUMMINGS. So basically what you're saying is that we may be doing—if the mandated benefits correlate with the claims that are paid, that's the vast majority of the money that is paid that comes in and goes out, and then the $1.73 is very, very low, then they may be, when you look at the total picture, be getting a better deal than if they were not in this system and went to another one; is that a fair statement?

Mr. FLYNN. Yes.

Mr. CUMMINGS. OK. You hesitated there for a moment. I don't want to get stuck on the hesitation.

Mr. FLYNN. No. All I was trying to do was to say it a different way, but you're right, Mr. Cummings.

Mr. CUMMINGS. All right. Let me just ask you a few other questions because Jerry Shaw is getting ready to come up and testify, and he has a some very interesting feelings and concerns. He contends that Federal employees are not getting the best price for the FEGLI insurance product they purchased. I guess you disagree with that?

Mr. FLYNN. I disagree completely.

Mr. CUMMINGS. OK. He also said that he has this opinion that you should integrate long-term care insurance into the FEGLI program. How do you feel about that?

Mr. FLYNN. I have seen that proposal. It needs to be looked at. I am not sure that it is something that would make sense, but it is worth looking through and making some judgments about. As you know, we've talked before this subcommittee about the President's long-term care proposal, and we have always envisioned, once the legislation is passed, consulting with stakeholders on the benefit design itself, and this is clearly something we would want to look at. Whether or not it would survive to the end or not, I really couldn't say at this point.

Mr. CUMMINGS. Now, he also has an opinion on—the reason why I'm asking you this is because I don't think you will be coming back up, and I just found his testimony so interesting, I would just like to hear what you have to say.

Could you assure us that OPM would be able to negotiate a lower-cost long-term care premium for Federal employees than would otherwise be obtained through a competitive process as proposed by Mr. Shaw?

Mr. FLYNN. To be quite honest, Mr. Cummings, I do not completely understand the competitive process being recommended, but the one thing that I can assure you is that we will, once this legislation gets passed, offer long-term care insurance at substantially lower prices than people can otherwise get.

Mr. CUMMINGS. So last question. Were participants in your survey allowed to express an interest in insurance products other than group universal life, variable group universal life and voluntary accidental death and dismemberment insurance? If so, what other products were they interested in?

Mr. FLYNN. We included questions about those specific products because those were the specific products reflected as an interest by this subcommittee. We did not ask specifically about others. Individuals had a comment section where, if they were interested in something, they could tell us, and I am not aware that anybody came back and said, we'd like something different even from those things. So we didn't ask the question, and I don't believe we got any substantial response about interest in even other products.

Mr. CUMMINGS. Would you say overall you felt that, from the survey, that the employees were generally satisfied?

Mr. FLYNN. I think it's clear from looking at the survey that the individuals who have Federal employee group life insurance today are extremely satisfied with the insurance they have. They need actually to know more than they do know about it, but as the same token, as we indicated earlier, they are interested in other products as well.

Mr. CUMMINGS. Now, what happens if somebody comes along and says—another insurance company comes along and says, look, we know we can do better than Metropolitan, what happens? I mean, if somebody comes in here and says, look, this $1.73, you know, we can do this stuff for $1.50 and keep your same structure because that doesn't matter, your claims don't matter because that's money going in and coming out, we break even there. I mean, it's just a wash. I'm just curious, what would be your impression?

Mr. FLYNN. My impression would be to actively look at that and to consider whether or not we might want to recompete this contract in order to achieve additional cost savings, but I would also say to you, Mr. Cummings, that it would have no effect on premiums whatsoever. It's a question of the high levels of customer service and performance that come at a $1.73 or $1.57, not the adequacy of the premium structure.

Mr. CUMMINGS. That's an interesting statement. Just one more question, two more. So you're saying that even if somebody came in and said, look, we can do this for $1.50, and, first of all, you probably wouldn't accept them because I guess—in other words, what you're saying is you will look at the quality of service for $1.50; is that it?

Mr. FLYNN. Absolutely, because that's what we're looking at from Metropolitan Life for the same thing.

Mr. CUMMINGS. And if you saw they had the same or better quality of service and——

Mr. FLYNN. For a lower price.

Mr. CUMMINGS [continuing]. For a lower price, $1.50, you're saying the premiums wouldn't change?

Mr. FLYNN. Premiums wouldn't change one iota, sir, not one iota. Remember, just take my own situation, these are round numbers, and it's off the top of my head, but I'm 52 years old. I spend probably in the Federal Employees Group Life Insurance Program somewhere in the neighborhood of $100 a month for life insurance, not counting what the government contributes toward the cost of that. That's $1,200 a year. That's in relation to $1.73 per year for essentially administering the program and performing well. It has no impact whatsoever on premiums.

Mr. CUMMINGS. So it makes sense then for Met Life, they are going to get their $1.73, and so it makes sense for them, I guess if they want to make more money on this effort, and it doesn't look like it's going to be a whole, whole lot, but I guess if they are lean and mean and able to provide the service, you know, the quality of service, then that's the only way they make more money on this venture here; is that right? You follow what I'm saying?

Mr. FLYNN. I follow exactly what you are saying. The only way they will make more money beyond being reimbursed for the expenses they incur to administer this program is to satisfy performance objectives we set for them and to demonstrate that they did, and we would then increase that service fee to them because of the satisfactory performance that they achieved. That's a negotiated amount, Mr. Cummings.

Mr. CUMMINGS. Thank you.

Mr. SCARBOROUGH. Thank you. Mrs. Morella.

Mrs. MORELLA. Thank you, Mr. Chairman. Mr. Cummings picked up on a few of the questions I was going to ask, so I appreciate your response.

I was picking up on Mr. Shaw's testimony with regard to offering the universal life insurance with the long-term care rider in it, and he also suggested that there be multiple carriers, and I know that you don't quite feel that you—I mean, you question it; you don't quite feel you can respond to it. I just wondered if—behind you is Mr. Titus. Would Mr. Titus feel free about responding to that? I mean, the reason I said that is because he deals with long-term care.

Mr. FLYNN. And I think I can probably speak to it as well, if you would like.

Mrs. MORELLA. I would like you to then.

Mr. FLYNN. The question about multiple carriers and the parallel to the manner in which the Federal Employees Health Benefits Program operates, I think is—is inappropriate for the introduction of a long-term care group insurance package. Everything that we've seen from the industry, everything we have seen from other employer practices, everything we have seen that points to successful introductions of group long-term care insurance suggests that it needs to be clear, simple to understand, offered through one carrier, and that's the most effective way to do that because of the fact that, generally speaking, in the market this is nowhere near the type of mature product that health insurance is, or, you know, life insurance for that matter, and presenting individuals with many choices, at many different premium levels for something as complicated and as complex as this is just simply a prediction for disaster for most employers if they want to follow that route.

Mrs. MORELLA. I wanted to give you an opportunity to comment on it because what happens in committee hearings like this, you can't get everybody up at the table at one time, and we always feel that we need to get a response from those people who are involved.

Also, on another topic, you have been kind enough to try to respond to Mr. Harry Bodansky. I wondered if you would just share very briefly what his dilemma is with this subcommittee and indicate what the disposition is of a situation like that. I think it has a kind of typical component to it.

Mr. FLYNN. I will try and do that as briefly and succinctly as I can, Mrs. Morella. In Mr. Bodansky's particular case, his—his life insurance began to reduce a few years ago, and as I mentioned in my earlier testimony, up until the point of the Life Insurance Improvement Act, ordinarily when that reduction starts for optional insurance, it goes 2 percent a month for 50 months until it reaches absolute zero.

When this bill passed, Mr. Bodansky was in the latter stages of that reduction period, and our decision to have an open enrollment period where people could elect this option in April essentially created for Mr. Bodansky what he felt and understandably felt was a hardship, because he was looking to have that reduction cease even earlier, but in this case, he could only have it cease as of April which in effect reduced the value of the insurance in force he could freeze going forward, and while I'm very sympathetic to Mr. Bodansky's situation, because we've met with him before, I know that there any number of other Federal retirees who are in similar circumstances, and the only thing I can really say is that when you're administering a program like this with 4 million policyholders, you've got to draw a line somewhere, and in this case, we drew the line in April 1999. People who were before that line are under one set of circumstances, people after that line under another. It's not, I'm sure, a satisfying answer to your constituent, but it's the best one I can give you.

Mrs. MORELLA. And the reason it becomes a unique case is because he has a disabled son and wanted to have something left for that son. I don't know what we can work on in terms of trying to resolve something like that, but we would certainly be open to whatever we could do to help.

I wanted to also—with regard to your testimony, you talked about the new rates on older employees being delayed, why you examined alternative approaches, including legislative options. What kind of options are you thinking about legislatively?

Mr. FLYNN. Well, we have had a number of options suggested to us. Mrs. Morella. This is a situation where the existing law pretty much dictated a course of action, but having taken that course of action and seen the result of it in terms of premiums for older employees, and having heard from many of those employees, we realized that that was not an action that this subcommittee or the Congress intended or that anybody did, and before we put them into effect, and because we have some time within which we can do that, a couple of years, we thought it would be good to come back and look at whether or not there is a better way to go; i.e., to provide individuals, employees and retired former employees the ability to continue substantial amounts of life insurance into their latter years, but to understand the premium effects of different alternatives on that benefit desire.

As you know, we have just finished a very, very busy 6-month period, open enrollment period, including the—the report that we issued to the Congress. We're just now in the early stages of looking at those alternatives. A number have been suggested, for example, creating a pool of retirees for purposes of setting premiums and a pool of employees, even though they may be the same ages. Now, that's something that could be considered.

The only thing that I would say is we talked here just a few moments ago about how the statutory construction of this program creates premiums that many regard as noncompetitive. The more we depart from what is typical private sector practice, the more we will do that for some groups of people. So it's a question of looking at the alternatives that we and others have suggested, understanding the premium impacts of those alternatives and making some judgments about the best way to move forward.

Mrs. MORELLA. You will be doing that in consultation with other groups?

Mr. FLYNN. Absolutely, within the administration and with the National Association of Retired Federal Employees, the Administration Office of the U.S. Courts and others who have raised this issue.

Mrs. MORELLA. Good. And you'll keep us posted, and you have a timeframe, you say about a year?

Mr. FLYNN. Well, as I say, we have, we know, a couple of years within which—before these new premiums need to go into effect. I'm hopeful that we can get this done within the next several months and then move forward.

Mrs. MORELLA. Thank you. You're a distinguished civil servant, Mr. Flynn. Thank you.

Mr. SCARBOROUGH. I thank the distinguished gentlelady from Maryland.

I wanted to just go back briefly to a couple of comments that were made during your exchange with Mr. Cummings. Just for the record, and if you disagree with any of these, let me know, I think you'd probably agree with the first one, when you were talking about Met Life, and you were looking at the quality of service, and if somebody underbid Met Life, you wouldn't necessarily see that as a reason to change because it wouldn't change premiums. I think another thing that a company that's going to be taking this on, be it Met Life or anybody else, would be stability. Obviously when you're talking about life insurance, you're talking about a timeframe that goes well beyond 5, 10, 15, 20 years, and obviously, Met Life has that stability. So that obviously is something that's important.

On the other side of it, though, I—you'd agree with that, correct?

Mr. FLYNN. I would agree with that.

Mr. SCARBOROUGH. The importance of stability?

Mr. FLYNN. Absolutely, among a range of other factors.

Mr. SCARBOROUGH. Right, among a range of other things.

Another thing you said, though, and I am glad Mr. Mica was not here when you said it, the quote was, "nobody's getting rich or fat over this program." If I'm working the numbers correctly, Met Life is getting $1.6 billion, a year which would be about $16 billion over 10 years.

Mr. FLYNN. To pay claims.

Mr. SCARBOROUGH. Right, right, and even if they're not making a profit off of that, they're going to be investing, and they're going to be drawing a lot. There are quite a few companies that would take that opportunity to——

Mr. FLYNN. Mr. Scarborough, if I could comment on that just for a second.

Mr. SCARBOROUGH. If I can just finish, let me finish and then comment on that. And just correct me if I'm wrong, if they invest at 20 percent on that money, and they're paying off 7 percent interest on their CDs, they're doing quite well, and again, as a Republican, your administration is carrying on the proud administration of past Democratic administrations, saying that we actually want people to get rich and fat. I mean, that's the Republican way. So I have got no problem with Met Life making that money. I just want to know——

Mr. FLYNN. Met Life is not making that money, Mr. Scarborough, and I think that should be very clear.

Mr. SCARBOROUGH. OK.

Mr. FLYNN. The premium income that they get——

Mr. SCARBOROUGH. That's what I want you to clarify. What happens to that $1.6 billion when it comes in?

Mr. FLYNN [continuing]. Which is disbursed monthly largely reflects the paid claims for the immediate preceding period, largely.

Mr. SCARBOROUGH. OK.

Mr. FLYNN. To the degree that it doesn't and it is invested—first of all, the disbursements are from the Treasury, so the trust fund is held by the government. It's not held outside the government. So those disbursements move to Met Life largely for the purpose of paying claims from the previous month. To the degree that they are invested in securities, equities, what have you, and earn interest, that interest accrues to this program and is used to keep premiums lower than they otherwise would be.

Mr. SCARBOROUGH. OK. I have got a vote in Judiciary. I'd like to ask Mrs. Morella if you wouldn't mind taking the chair, and I want to get back to this. Hopefully, I will be back in time, because the way it was left hanging, I don't think is fair to Met Life or anybody else, but I do think it's important for us to get out on the record how much money is being made here; do they have some income they can invest that way. These are things that we hear quite a bit from Members interested in sharing in the system.

Mr. Cummings.

Mr. CUMMINGS. I don't have anything else.

Mr. SCARBOROUGH. Mrs. Morella, do you have anything else?

Mrs. MORELLA. No, I don't.

Mr. SCARBOROUGH. Why don't we go ahead and dismiss you, and we'll go on to our second panel, and I'll tell you what, if you don't mind, I'm just going to send you some questions in writing on this issue and some other issues, and let's go on to our second panel. Thank you, Mr. Flynn.

Mrs. MORELLA [presiding]. In our second panel we are going to have Mr. Michael Bartholomew, who is the senior counsel for the American Council of Life Insurance; Mr. Dennis New, the second vice president for special risk products, Unum/Provident; and Mr. G. Jerry Shaw, general counsel, Senior Executives Association.

Gentlemen, as you know, it's a policy of this committee that we swear in all of those who will be testifying. If you would stand, raise your right hands.

[Witnesses sworn.]

Mrs. MORELLA. The record will indicate affirmative response, and again, if we could ask you to comment, you know, again using our timeframe that we have consistently of about 5 minutes, and your total testimony that we have before us will also be verbatim in the record, and we'll start off then with Mr. Bartholomew. Is that order OK?

STATEMENTS OF MICHAEL J. BARTHOLOMEW, SENIOR COUNSEL, AMERICAN COUNCIL OF LIFE INSURANCE; DENNIS NEW, SECOND VICE PRESIDENT FOR SPECIAL RISK PRODUCTS, UNUM/PROVIDENT; AND G. JERRY SHAW, GENERAL COUNSEL, SENIOR EXECUTIVES ASSOCIATION

Mr. BARTHOLOMEW. Thank you, Madam Chairman.

Good morning, members of the committee. I am Michael Bartholomew, senior counsel of the American Council of Life Insurance, a Washington-based national trade association which represents 493 legal reserve life insurance companies. Those insurance companies that are our members provide group insurance for the American public, which represents more than 80 percent of the group insurance market.

On behalf of the ACLI, I want to thank you for the opportunity to talk about the success of employer-sponsored benefits which supplement those life insurance benefits routinely provided to employees. Specifically, I would like to share with you what data we have on supplemental coverages for group universal life, group variable universal life and some small data about additional accidental death and dismemberment coverage that's offered to employees as part of an additional life insurance program.

We support the efforts of this Congress to look favorably upon programs for Federal employees that will expand the availability of life and accident insurance that can be purchased on a tax-favored basis. These products help employees secure financial protection of their assets due to premature death and also to help to enhance their efforts at retirement planning by the purchase of products that are linked to the performance of our financial markets.

Group universal life was first introduced in 1985. It essentially combines the traditional group term life insurance with a cash accumulation feature. Once an employer is issued a master group policy for this type of coverage, employees receive a certificate as evidence of coverage, as they would in the ordinary group life situation—as if has been sold, however—and unlike usual group term life insurance, the employee usually pays the entire cost.

The latest figures we have from our own member companies show that those life insurance companies issued a face amount of $77 billion of this coverage in 1997, which accounted for 10.5 percent of all the group life insurance written in the United States during 1997. That amount of coverage covered over 4 million certificate holders and brought in a total in force at $344 billion.

Another group policy called variable universal life is a much newer product and is being sold by a smaller group of companies as of now. It is similar in many respects to the group universal life except that employees are given the choice of different investment options and specify where the cash value of the policy is to be invested. As of 1997, sales of this product totaled nearly $26 billion, with face amounts totaling $156 billion. In addition to the information that the ACLI has compiled, sister organizations are also looking at marketing trends for these new and voluntary group products.

One such study by LIMRA International, which is the life insurance marketing and research association, an international marketing organization, but is not yet published, looked at the types of voluntary benefits offered by employers and broke down the results of that study by employer size. The studies done in early 1999 show that 35 percent of all employers with 20 to 5,000 employees offered voluntary supplemental life insurance to their employees. More on point to this testimony, 76 percent of the largest employers studied, those with 1,000 to 5,000 employees offered such supplemental life to their employees. Twenty-three percent of this segment of the employer population offered additional accidental death and dismemberment insurance.

Measuring from 1994, the amount of new group premium for group universal life has demonstrated a fairly consistent pattern. Starting the study in 1994, they found that in all the premium written for group insurance, 13 percent of it, or $2.3 billion in premium, was for group universal life. In 1998, that figure had risen to $4.3 billion.

As you can see, with the exception of a down period in 1997, because of what they ascribe to merger and acquisition activity, there has been a steady growth in the amount of premium written for group universal life on a voluntary business.

Let me just close and say that group universal life and variable universal life are becoming more popular options for employees looking for alternatives to the usual forms of life insurance offered in the past. Innovation in this area to access employment markets with a product that was previously offered only through individual policies has been shown to be very successful for life insurers writing group insurance.

It is our belief that the introduction of such a program for Federal employees will result in similar success. Thank you.

Mrs. MORELLA. Thank you Mr. Bartholomew, and you were right within the timeframe. Bravo.

[The prepared statement of Mr. Bartholomew follows:]

Statement

of the

American Council of Life Insurance

on

Life Insurance: New Options for Federal Employees

presented by

Michael J. Bartholomew
Senior Counsel, American Council of Life Insurance

before the

Subcommittee on Civil Service

Committee on Government Reform and Oversight

of the

United States Congress

July 27, 1999

Good morning Mr. Chairman and members of the Committee. I am Michael J. Bartholomew, Senior Counsel, American Council of Life Insurance, a Washington, D.C.-based national trade association representing 493 life insurers. Our member companies that provide group insurance to the American public represent more than 80% of the marketplace in this respect.

On behalf of the ACLI, I want to thank you for the opportunity to talk about the success of employer-sponsored benefits which supplement those life insurance benefits routinely provided as a condition of employment. Specifically, I would like to share with you what we have found out about on supplemental coverages for group universal life, group variable universal life and additional accidental death and dismemberment coverages have been received by employees in plans where their employer has offered them as part of an additional program available to employees, mostly under favorable tax situations.

We support the efforts of this Congress to look favorably upon programs for federal employees that will expand the availability of life and accident insurance products it can purchase on a tax favored basis to help secure for them and their families financial protection of their assets due to premature death and to enhance their efforts at retirement planning by the purchase products that are linked to the performance in our financial markets.

Group universal life insurance was first introduced in 1985. It essentially combines group term life insurance with a cash accumulation feature. Once an employer is issued a master policy, employees receive certificates as evidence of coverage, as they would in an ordinary group life situation. As it has been sold, however, unlike group term life insurance, the employee usually pays the entire cost. The latest figures we have available from our members show that these life insurance companies issued a face amount of $77 billion of this coverage which accounted for 10.5 % of all group life insurance written in the United States during 1997. That amount of insurance covered over 4 million certificate holders and brought the total amount in force to $344 billion.

Another policy called group variable universal life is a newer product in the group market and is being sold by a smaller group of companies. It is similar in many respects to group universal life except that employees are given the choice of different investment options and specify where the cash value of the policy is to be invested. In 1997, sales of this product totaled nearly $26 billion, with a face amounts totaling $156 billion.

In addition to the information that the American Council of Life Insurance compiles, sister organizations are also looking at marketing trends for these new voluntary group products. One such study by LIMRA International, not yet published, looked at the types of voluntary benefits offered by employers and broke down the results of that study by employer size. The studies done in early 1999 show that 35% of all employers (with 20 to 5,000 employees) offered voluntary supplemental life insurance to their employees. More on point, 76% of the large employers studied (those with between 1,000 and 5,000 employees) offered such supplemental life insurance to its employees. Twenty-three percent of this segment of the employer population also offered additional accidental death and dismemberment.

Measuring from 1994, the amount of new premium for group universal life has demonstrated a fairly consistent pattern of growth as follows:

Year	Group Universal New Premium as Percent of Total	Premiums (in Millions)
1994	13%	$2,378,610
1995	20%	$3,712,000
1996	15%	$3,068,100
1997	8%	$2,050,560
1998	18%	$4,397,580

As you can see, with the exception of 1997, group universal life has been a consistent and steady part of the amount of total premium written for group life generally. These figures do not split out the difference in premium between group universal life, group variable universal life or group variable life, but other studies of our members show that the predominant coverage presently is group universal life, and that group variable universal life is gaining more acceptance, especially given the favorable returns of Wall Street.

It is also important to understand that group universal life is usually paid for by the employee alone so that figures representing the group universal life premium generally reflect the financial measure of employee participation in these programs.

We have no specific similar data on additional accidental death and dismemberment other than that cited above concerning the percent of employers offering it, but more details about that will be provided by your next speaker, Mr. New. What we do know about the coverage is its very low cost which makes it attractive to segments of the insuring population.

Group universal life and group variable universal life are becoming more popular options for employees looking for alternatives to the usual forms of life insurance offered in the past. Innovation in this area to access employment markets with a product that was previously offered only through individual policy has shown to be successful for life insurers writing group insurance. It is our belief that the introduction of such a program for federal employees will result in similar success.

If you have any other questions, please contact me.

Michael J. Bartholomew

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Mrs. MORELLA. I am now pleased to recognize Mr. New of Unum.

Mr. NEW. Thank you, Madam Chairperson, members of the committee. I appreciate this opportunity to appear before your committee today to discuss UnumProvident's experience as a provider of Group Voluntary Accidental Death and Dismemberment Insurance, sold at the work site to the private sector.

My name is Dennis New. I am the second vice president of special risk products and marketing for UnumProvident. In this position, I am responsible for developing products and establishing marketing strategies to support our voluntary AD&D offering.

This presentation is intended to inform, educate and outline the popularity and demand for voluntary AD&D insurance. Today, many of the Fortune 1,000 companies offer a stand-alone voluntary AD&D plan to their employees. Employees today want more choices in the insurance benefit programs offered to them. Employees are asking for voluntary insurance products that are: offered at the work site, easy to understand, convenient to buy and affordable, and offer family benefit options. Voluntary AD&D is a product that fills those needs.

Also, statistics and trends support the need for voluntary AD&D insurance. In fact, according to the National Safety Council, accidental deaths are the leading cause of death among people under the age of 38 and the fifth leading cause of death overall. Also, nearly 9 out of 10 deaths occurred off the job, which means people are dying traveling to and from work, while on vacation or at home.

As the global economy expands, so does the increased risk of exposure to accidents. Americans are traveling more for business and pleasure. A few cited trends impacting the need for voluntary AD&D include: Americans are planning a record 1.32 billion trips over 100 miles in 1999; also the FAA expects air travel to leap from 600 million passengers to 1 billion passengers a year by the year 2010.

Accidents can happen at any time, anywhere, to anyone. When an individual suddenly dies, is dismembered or suffers a disability that causes paralysis in an accident, that family's ability to maintain a standard of living or prepare for the future can be seriously jeopardized.

I would like to provide a brief overview of voluntary AD&D and its value, benefits and services. Voluntary AD&D is an employer-sponsored insurance program paid by the employees. It provides coverage against accidents 24 hours a day, 365 days a year, on and off the job, worldwide. It allows employees to purchase high amounts of insurance at affordable rates. It requires no medical history or underwriting and allows employees to cover their spouse as well as their children.

In addition, there are many other benefit features that an employer can design which cover more than the core accidental death and dismemberment insurance. A few examples would include a paralysis benefit which would pay a lump sum benefit if an insured becomes paralyzed or partially paralyzed in a covered accident. In addition, you can add a home alteration vehicle modification benefit which pays an additional benefit if an insured suffers an injury which requires the use of wheelchair. This additional benefit can be used to help pay for making the insured's home or car wheelchair accessible.

Also, additional service for travel assistance can be added to round out the voluntary AD&D offering. As pointed out earlier, Americans are traveling for business and vacations more frequently within the United States and abroad. Most of the time these trips are uneventful; however, emergencies can and do happen. This is why many employers today are offering travel assistance services with their voluntary AD&D programs. The costs are typically built into the voluntary AD&D rate for ease of administration. When packaged with voluntary AD&D, travel assistance services, are a highly-valued service that offers protection for employees and other family members when traveling 100 or more miles from their home or outside the United States. This aligns well with the travel trends: Americans are planning a record 1.32 billion trips over 100 miles in 1999. Also travel assistance typically provides direct access to worldwide assistance in the event of unexpected emergencies for accident as well as sickness.

Finally, enrollment results for voluntary AD&D plans tend to be high. UnumProvident's history and results in enrolling voluntary AD&D plans average around 35 to 50 percent. Factors contributing to the significant participation include: the ability to purchase large amounts of insurance at affordable cost, family plan options, attractive benefit enhancements and travel assistance services, as well as no medical history necessary.

In closing, on behalf of UnumProvident I appreciate this opportunity to appear before you today to discuss UnumProvident's experience as a provider of voluntary AD&D insurance coverage. Considering options available in the private sector as well as the mobility of the Federal Government's work force, I feel strongly that voluntary AD&D insurance will be a welcome benefit option to Federal employees.

Thank you. I would be glad to answer any questions.

Mrs. MORELLA. Thank you, Mr. New. I am very impressed with the number of benefits that you offer and that you have outlined.

[The prepared statement of Mr. New follows:]

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DOCUMENT

STATEMENT
OF
DENNIS J. NEW
UNUMPROVIDENT
BEFORE THE CIVIL SERVICE SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT REFORM

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before your committee today to discuss UNUMPROVIDENT'S experience as a provider of Group Voluntary Accidental Death & Dismemberment insurance to the Private Sector.

My name is Dennis New, Second Vice-President for Special Risk Products and Markets. In this position, I am responsible for developing products and establishing marketing strategies to support our Voluntary Accidental Death & Dismemberment offering.

This presentation is intended to inform, educate and outline the growing popularity and demand for Voluntary Accidental Death & Dismemberment (AD&D) Insurance.

BACKGROUND:
The American workforce is changing. Employees today are more educated and want more voice and choices in the insurance benefit programs offered to them.

During the mid-1980's and into the 1990's, Voluntary Benefit Programs (specifically Life and AD&D) became popular in the Private Sector. Employees were searching for voluntary insurance benefits that were offered at the workplace, affordable, easy to understand, convenient to buy and pay for and offered family-oriented features. Voluntary AD&D is a product that filled those needs.

Many of the Fortune 1000 Companies today offer a stand-alone Voluntary AD&D plan. Companies, such as **Pharmacia & Upjohn, Whirlpool, Chase Manhattan and Baker-Hughes** have implemented Voluntary AD&D plans for their employees. In addition, State and Local Governments, such as the **State of Alabama, The Florida Department of Transportation, The City of Orlando and The City of Wilmington** have also added Voluntary AD&D to their employee-choice insurance portfolio. All types of industries and occupations have recognized the potential of Voluntary AD&D.

WHAT IS THE LIKELIHOOD OF AN ACCIDENT HAPPENING AND WHAT ARE THE IMPACTS?

Accidents can happen to anyone, anywhere, at any time. In fact, according to the National Safety Council, ***Accidental Deaths are the leading cause of death among people under age 38, and the fifth leading cause of death overall.***[1]

The statistics tell the story:

- 93,800 Americans were killed in accidents in 1997. Of these, 43,200 died in automobile accidents.[2]
- Nearly 9 out of 10 accidental deaths occurred off the job.[3]

In addition to loss of life, accidents can cause severe disability. While we need to understand the causes of and ways to prevent accidents, consider their financial impact. In the case of death or disability, financial assistance can be of primary importance.

As the global economy expands, so does the increased risk of exposure to accidents. Americans are traveling more for business, leisure and pleasure. Below are a few trends impacting the need for Voluntary AD& D:

- Americans are planning a record 1.32 billion trips over 100 miles in 1999.[4]
- More than 32 million business trips in 1998 included children (up 32% over 1997).[5]
- The FAA expects air travel to leap from 600 million passengers to 1 billion passengers a year by 2010.[6]

Voluntary Accidental Death & Dismemberment insurance protects against financial hardships that occur when death is a result of an accident, and can also help during a recovery and rehabilitation period if someone suffers an accidental dismemberment or paralysis. **The financial impacts of accidental death, dismemberment or paralysis are both immediate and long-term:**

Immediate effects of an accidental death, dismemberment or paralysis:

- Funeral and Burial Expenses
- Outstanding Medical Bills
- Legal Fees & Estate Settlements

Sources: 1,2,3, National Safety Council, Accident Facts 1998 Edition
4. USA Today, October 27, 1998, "Travel Forecast: Mostly Sunny, Chance Clouds"
5.Travel Industry Association of America, March 25, 1999, Internet – "News Release"
6.USA Today, April 15, 1998

Long-Term effects of an accidental death, dismemberment or paralysis:

- Downward adjustments in lifestyle or displacement of families

- Loss of retirement savings
- Inability to meet mortgage or rent expenses
- Loss of children's education funds and probable downward adjustments in the cost of living expenses (food, clothing, transportation, insurance, child care and elder care)

Accidents are sudden, untimely and financially taxing. When an individual suddenly dies, is dismembered or paralyzed in an accident, the family's ability to maintain its standard of living and/or prepare for the future can be seriously jeopardized.

WHAT IS VOLUNTARY ACCIDENTAL DEATH & DISMEMBERMENT INSURANCE?

- Primarily sold to employer-employee groups in the Private Sector
- High insurance amounts can be purchased at affordable rates
- Coverage against accidents 24-hours; 365 days a year, on and off the job, anywhere in the world
- No medical underwriting
- Typically, no participation requirements
- Family coverage option
- Flexibility in selecting benefit amounts based on insurance needs
- Payroll deduction – employee paid coverage
- Simplified composite rate structure – no age bands
- Eligibility covers active employees – retirees traditionally are not covered unless by special agreement.
- Supplements insufficient levels of life insurance protection

WHAT ADDITIONAL BENEFITS ARE AVAILABLE?

There are many features and options which allow employers to design a plan that covers more than traditional AD&D insurance coverage. **Some examples are listed below:**

- **Paralysis Benefit**: Pays a benefit if insured becomes paralyzed or partially paralyzed in a covered accident.
- **Home Alteration/Vehicle Modification Benefit**: Pays an additional benefit if insured suffers an injury, which requires the use of a wheelchair.
- **Seat Belt/Airbag Benefit**: Pays additional benefits if insured dies while wearing a seat belt and airbag is deployed.
- **Loss of Use Benefit**: Pays a benefit if insured loses function of a limb in a covered accident.
- **Education Benefit**: Pays an education benefit to dependent child(ren) to continue higher education if an insured dies.
- **Spouse Training Benefit**: Pays additional training benefit to the spouse of the deceased employee for training in a special skill or trade school.

- **Child Care Benefit**: Pays a benefit for day care of dependent child(ren) if an insured dies.
- **Comatose Benefit**: Pays a benefit if an insured is in a coma as a result of a covered accident.
- **Burn Benefit**: Pays a benefit if an insured becomes disfigured due to a third degree burn.
- **Parental Care Benefit**: Pays additional benefit to dependent parents or grandparents, if insured or insured's spouse dies due to an accident.

WHEN ARE BENEFITS NOT PAYABLE?
Since AD&D polices are intended to provide coverage specifically for losses due to accidents, the policy typically excludes non-accident causes. Some examples of these exclusions are:

- Disease
- Suicide
- Commission of a Crime
- Drug or Alcohol use
- War

Exclusions can be removed on a case-by-case basis and broadened to reflect Policyholder/Industry concerns.

WHAT HAPPENS TO AN EMPLOYEE'S AD&D WHEN THEY LEAVE EMPLOYMENT?

Employees leaving employment for any reason:
- Option to convert to an individual policy
- Rates typically much higher than group rates

IS PORTABILITY AN OPTION?

Recent trends support the need for insurance carriers to provide portable type products that would allow the insured to take their benefits with them if they retire or leave employment, at the same affordable group rates. Few carriers today, offer portability on their Voluntary AD&D plans at the same group rates and without any additional fees to the insured. UNUMPROVIDENT is now addressing the need for a portable Voluntary AD&D product by offering it as a special feature to our Voluntary AD&D, **at the same group rates and without any additional fees to the insured.**

HERE'S AN EXAMPLE OF HOW BENEFITS ARE PAID IF INSURED HAD AN EDUCATION BENEFIT:

A 46 year-old husband and his family were in a car accident traveling home from a visit to his parent's house. The husband was killed; his wife suffered a broken shoulder and his son and daughter sustained no injuries.

At the time of the accident, the 20 year-old son was attending college and the daughter was a senior in high school. The Insured wife was left on her own to support her two children.

With UNUMPROVIDENT coverage, the wife would receive a lump-sum benefit. In addition, UNUMPROVIDENT would pay towards the son's college education, as well as, the daughter's college education.

WHAT TYPE OF ENROLLMENT RESULTS ARE TYPICAL?

Based on UNUMPROVIDENT'S history and results enrolling Voluntary AD&D plans, participation for new groups **average around 35-50%**. This significant participation rate is due to:

- Large amounts of insurance
- Affordable cost
- No medical history required
- Family plan option
- Attractive enhancements/services
- Ease of enrollment

WHAT ADDITIONAL SERVICES ROUND OUT VOLUNTARY AD&D OFFERING?

Employees are traveling for business and vacation more frequently, within the United States and abroad. Most of the time these trips are uneventful. However, Murphy's Law says "emergencies can and do happen". An employee may need medical or legal help far from home. If the traveler is in a country with a different culture, language, laws, or medical standards, the emergency can be further complicated.

This is why many employers are offering Travel Assistance Services with their Voluntary AD&D programs today. Costs typically are built into the Voluntary AD&D rate for ease of administration.

When added to Voluntary AD&D, travel assistance is a high-value benefit that provides protection for employees and/or family members when traveling 100 or more miles from their homes or outside the U.S.. Travel Assistance will provide direct access to worldwide assistance in the event of unexpected medical emergencies.

For example, types of services that Travel Assistance provides:

- Medical consultation and evaluation
- Hospital admission guarantee
- Emergency medical evacuation & repatriation
- Return of mortal remains
- Emergency prescription services
- Legal or interpreter referrals

Take a look at the services at work:

While on assignment in Indonesia, Civil Engineer John S. discovered that he was about to run out of heart medication. Fortunately, John had Travel Assistance as part of his AD&D Insurance program with his employer. He dialed the emergency toll-free telephone number and an Assistance Coordinator located a Pharmacy in Djakarta that would accept the transfer of his prescription. A potentially serious medical situation was averted.

Becky H. was 29 weeks pregnant when she went into premature labor in Cancun, Mexico. Her husband called the Travel Assistance Alarm Center immediately. An entire medical team and their equipment were dispatched to deliver the baby; who was transferred, by private jet ambulance, to Miami. Once the baby was well enough to be released from the hospital, the Travel Assistance Company coordinated transportation home for both mother and child. The Assistance Company covered everything (with the exception of medical expenses).

As more people travel for business or pleasure, it doesn't necessarily increase the risk of accident, but it does increase the exposure. ***This generates the need for AD&D protection and its value added benefits and services.***

In closing, Mr. Chairman and Members of the Committee, on behalf of UNUMPROVIDENT, I appreciate this opportunity to appear before you today to discuss UNUMPROVIDENT experience as a provider of Voluntary Accidental Death & Dismemberment coverage. I am glad to share my experience and knowledge with you. I am available to answer any questions you may have that will help you determine whether to offer a Voluntary Accidental Death & Dismemberment insurance program at the workplace. Considering options available in the Private Sector as well as the mobility of the Federal Employees, I feel strongly that Voluntary AD&D insurance coverage would be a welcome benefit option to Federal Employees.

Mrs. MORELLA. It is a pleasure to recognize Mr. Shaw who's a regular at this committee.

Mr. SHAW. Thank you, Madam Chairman and members of the subcommittee for the opportunity to testify. As you know, the Senior Executive Association represents the interests of career Federal executives throughout government.

The current Federal Employees Group Life Insurance Program has served the Federal community well for a number of years. However, the recent open season provided an opportunity for private insurance carriers to educate employees about the options available to them in the private marketplace. Many learned they could sometimes secure the same or better coverage from private companies for substantially better rates. Many others learned that there were additional options they could purchase, such as group universal life insurance linked with long-term care insurance for their later years.

My firm issues a free weekly on-line newsletter for Federal managers and executives read by well over 50,000 of them. During the FEGLI open season, we received substantial feedback in the form of e-mails from our readers who were confused and upset to learn that they had been paying much higher prices for their FEGLI insurance than they would pay in the private market. A number told us that they had assumed that, in purchasing FEGLI, since it was a Federal Government-sponsored program, the government had negotiated the lowest possible life insurance rates for them. They expressed dismay to learn otherwise.

We explained to them, in response, that their higher rates were helping to pay for other employees who would otherwise be uninsurable. Some said that was cold comfort given their own limited means. While SEA does not support any particular product or program, the SEA board supports greater choice for Federal employees generally and senior executives specifically. What makes sense for one employee does not always make sense for another.

In the bills which propose to offer long-term care insurance to Federal employees and retirees there is a dichotomy between two opposing positions; one of a single policy in a program operated by OPM, which we see as analogous to the FEGLI program; and one of OPM overseeing a variety of options offered by a number of companies, but where OPM sets the baseline requirements, which we see as analogous to the way OPM operates the Federal Employees Health Benefits Program. SEA would support the latter.

The current Federal Employees Health Benefits Program is a great example of a benefit which works. OPM establishes the ground rules, a number of options are offered, and the costs of the program have been consistently less than those in the private sector because of competition among the providers. We see no reason why the same program would not work for the FEGLI program or a long-term care program, either separately or combined.

Some large insurance companies have argued that only one long-term care policy, with a consortium of providers would result in lower premiums for employees. We believe the contrary. The FEGLI program has proven otherwise, instead becoming progressively more expensive. We have seen no incentive to keep rates down, and the FEGLI program has been provided by one carrier for years.

By contrast, the FEHBP program has provided a number of options to employees, and competition has kept the rates lower than in the private sector.

These same insurance companies have said that the cost of marketing long-term care policies to Federal employees and retirees would cause an increase in premium costs. The FEGLI program has had no marketing costs and yet the premiums have gone up. In addition, some Federal employees feel they have been misled into paying higher prices than what is necessary for their life insurance. By contrast, the FEHBP providers have had to market their policies and they still have consistently beaten the prices and sometimes the quality of services provided in the private sector.

The fact is that in order to sell long-term care policies to many employees, if not most, especially those who are younger and who generally believe there are better and more pressing things to spend their money on, marketing and widespread publicity will be a necessity. In addition, providing alternatives such as universal life insurance linked with long-term care, as well as other options, will increase the level of discussion among employees and, we believe, will result in an educated employee population which can make informed choices.

We therefore support the maximum choice in programs and carriers such as the FEHBP program for employee benefit programs generally. With OPM oversight to ensure qualified and financially sound providers, and the operation of the competitive marketplace, we believe Federal employees and retirees will enjoy the best choices and the most competitive prices available in life insurance and long-term care products. From there, employees should be free to do as they, in their individual wisdom, choose.

Thank you for the opportunity to testify.

[The prepared statement of Mr. Shaw follows:]

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TESTIMONY OF

G. JERRY SHAW

GENERAL COUNSEL

TO THE SENIOR EXECUTIVES ASSOCIATION

BEFORE THE

SUBCOMMITTEE ON CIVIL SERVICE

COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT

U.S. HOUSE OF REPRESENTATIVES

ON

OPTIONS FOR LIFE INSURANCE POLICIES FOR FEDERAL EMPLOYEES

JULY 27, 1999

MR CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE, THANK YOU FOR THE OPPORTUNITY TO TESTIFY BEFORE YOU TODAY ON THIS IMPORTANT SUBJECT.

AS YOU KNOW, THE SENIOR EXECUTIVES ASSOCIATION (SEA) REPRESENTS THE INTERESTS OF THE CAREER MEMBERS OF THE SENIOR EXECUTIVE SERVICE IN AGENCIES THROUGHOUT THE FEDERAL SERVICE, AS WELL AS CAREER FEDERAL EXECUTIVES IN SENIOR LEVEL, SENIOR TECHNICAL AND OTHER SES EQUIVALENT POSITIONS.

THE CURRENT FEDERAL EMPLOYEE GROUP LIFE INSURANCE PROGRAM (FEGLI) HAS SERVED THE FEDERAL COMMUNITY WELL FOR A NUMBER OF YEARS. IT IS ESPECIALLY VALUABLE FOR THOSE EMPLOYEES, WHO BECAUSE OF HEALTH PROBLEMS, HAVE BEEN UNABLE TO SECURE LIFE INSURANCE ELSEWHERE. WE STRONGLY SUPPORT THE CONTINUATION OF EITHER THE CURRENT GROUP TERM LIFE PROGRAM OR ANOTHER SIMILAR PROGRAM WHICH WOULD PROVIDE THE SAME GUARANTEED ISSUE COVERAGE TO THOSE EMPLOYEES WHO NEED IT.

HOWEVER, THE RECENT FEGLI OPEN SEASON RESULTED IN MANY EMPLOYEES REALIZING THAT THIS PROGRAM IS SOMETIMES NOT THE BEST BUY FOR THEM AND THEIR FAMILIES. THE OPEN SEASON PROVIDED AN OPPORTUNITY FOR PRIVATE INSURANCE CARRIERS TO EDUCATE EMPLOYEES ABOUT THE OPTIONS AVAILABLE TO THEM IN THE PRIVATE MARKETPLACE, AND THEY LEARNED THAT THEY COULD SOMETIMES SECURE THE SAME OR BETTER COVERAGE FROM PRIVATE COMPANIES FOR OFTEN SUBSTANTIALLY BETTER RATES THEN THOSE OFFERED BY FEGLI. THEY ALSO LEARNED THAT MANY OTHER TYPES OF LIFE INSURANCE WERE AVAILABLE WHICH WERE NOT OFFERED IN THE FEGLI PROGRAM, SUCH AS GROUP UNIVERSAL LIFE, WHOLE LIFE, GROUP VARIABLE UNIVERSAL LIFE INSURANCE, AND GROUP UNIVERSAL LIFE INSURANCE LINKED WITH LONG TERM CARE INSURANCE FOR THEIR LATER YEARS.

MY FIRM ISSUES A FREE, WEEKLY ON-LINE NEWSLETTER FOR FEDERAL MANAGERS AND EXECUTIVES WHICH IS READ BY WELL OVER 50,000 OF THEM. DURING THE FEGLI OPEN SEASON WE RECEIVED SUBSTANTIAL FEEDBACK IN E-MAILS FROM OUR READERS WHO WERE CONFUSED AND UPSET TO LEARN THAT THEY HAD BEEN PAYING MUCH HIGHER PRICES FOR THEIR FEGLI INSURANCE THAN THEY WOULD PAY IN THE PRIVATE MARKET. A NUMBER TOLD US THAT THEY HAD ASSUMED THAT SINCE FEGLI WAS A FEDERAL GOVERNMENT SPONSORED PROGRAM, THE GOVERNMENT HAD NEGOTIATED THE LOWEST POSSIBLE LIFE INSURANCE RATES FOR THEM. THEY EXPRESSED DISMAY TO LEARN OTHERWISE. WE EXPLAINED TO THEM THAT THEIR HIGHER RATES WERE HELPING TO PAY FOR OTHER EMPLOYEES WHO WOULD OTHERWISE BE UNINSURABLE, BUT SOME SAID THAT WAS COLD COMFORT GIVEN THEIR OWN

LIMITED MEANS.

IN THEIR RECENT REPORT TO CONGRESS REQUIRED BY THE FEDERAL EMPLOYEES LIFE INSURANCE IMPROVEMENTS ACT (P.L. 105-311), OPM REPORTED THAT MANY FEDERAL EMPLOYEES WANTED ADDITIONAL OPTIONS INCLUDED IN THE LIFE INSURANCE PROGRAM. 42% OF RESPONDING FEGLI PARTICIPANTS WERE INTERESTED IN GROUP UNIVERSAL LIFE, AND 23% IN GROUP VARIABLE UNIVERSAL LIFE. 48% WERE INTERESTED IN VOLUNTARY ACCIDENT DEATH AND DISMEMBERMENT INSURANCE. ONE ADDITIONAL PRODUCT THAT HAS SPARKED INTEREST AMONG THOSE WE REPRESENT IS UNIVERSAL LIFE INSURANCE LINKED WITH A LONG TERM CARE BENEFIT.

WHILE SEA DOES NOT SUPPORT ANY PARTICULAR PRODUCT OR PROGRAM, THE SEA BOARD SUPPORTS GREATER CHOICE FOR FEDERAL EMPLOYEES GENERALLY, AND SENIOR EXECUTIVES SPECIFICALLY. WHAT MAKES SENSE FOR ONE EMPLOYEE DOES NOT ALWAYS MAKE SENSE FOR ANOTHER. FOR SOME, THE CURRENT FEGLI PROGRAM SUITS THEIR NEEDS WELL, WHILE FOR OTHERS IT PROVIDES NEITHER THE NECESSARY OPTIONS NOR THE LOWEST RATES AVAILABLE.

IN THE BILLS WHICH PROPOSE TO OFFER LONG TERM CARE INSURANCE TO FEDERAL EMPLOYEES AND RETIREES, THERE IS A DICHOTOMY BETWEEN A SINGLE POLICY IN A PROGRAM OPERATED BY OPM (ANALOGOUS TO THE WAY OPM OPERATES THE FEGLI PROGRAM) VERSUS OPM OVERSEEING A VARIETY OF OPTIONS PROVIDED BY A NUMBER OF COMPANIES BUT WHERE OPM SETS THE BASELINE REQUIREMENTS (ANALOGOUS TO THE WAY OPM OPERATES THE FEHBP). SEA WOULD SUPPORT THE LATTER. THOSE WE REPRESENT AS WELL AS OTHER EMPLOYEES WE HAVE HEARD FROM CONSISTENTLY SAY THEY WANT THE OPPORTUNITY TO SELECT THE PRODUCT AND THE SERVICE PROVIDER THAT MEETS THEIR NEEDS AND WHOSE PRICES ARE COMPETITIVE.

THE CURRENT FEDERAL EMPLOYEES HEALTH CARE PROGRAM (FEHBP) IS A GREAT EXAMPLE OF ONE WHICH WORKS. OPM ESTABLISHES THE GROUND RULES, A LARGE NUMBER OF OPTIONS ARE OFFERED, AND THE COSTS OF THE PROGRAM HAVE BEEN CONSISTENTLY LESS THAN THOSE IN THE PRIVATE SECTOR BECAUSE OF COMPETITION AMONG THE PROVIDERS. WE SEE NO REASON WHY THE SAME TYPE OF PROGRAM WOULD NOT WORK FOR THE FEGLI PROGRAM AND THE LTC PROGRAM EITHER SEPARATELY OR COMBINED.

SOME LARGE INSURANCE COMPANIES HAVE ARGUED THAT ONLY ONE LTC POLICY WITH A CONSORTIUM OF PROVIDERS WOULD RESULT IN LOWER PREMIUMS FOR EMPLOYEES. WE BELIEVE THE CONTRARY. THE FEGLI PROGRAM HAS NOT BEEN PROVEN TO SAVE MONEY, BUT INSTEAD HAS PROGRESSIVELY

BECOME MORE EXPENSIVE. THERE IS NO INCENTIVE TO KEEP RATES DOWN, AND THE FEGLI PROGRAM HAS BEEN PROVIDED BY ONE CARRIER FOR YEARS.

BY CONTRAST, THE FEHBP PROGRAM HAS PROVIDED A NUMBER OF OPTIONS TO EMPLOYEES, AND COMPETITION HAS KEPT THE RATES LOWER THAN IN THE PRIVATE SECTOR.

THESE SAME INSURANCE COMPANIES HAVE SAID THAT THE COST OF MARKETING LTC POLICIES TO FEDERAL EMPLOYEES AND RETIREES WOULD CAUSE AN INCREASE IN PREMIUM COSTS. THE FEGLI PROGRAM HAS HAD NO MARKETING COSTS, AND YET THE PREMIUMS HAVE GONE UP. IN ADDITION, SOME FEDERAL EMPLOYEES FEEL THAT THEY HAVE BEEN MISLED INTO PAYING HIGHER PRICES THEN WAS NECESSARY FOR THEIR LIFE INSURANCE. BY CONTRAST, THE FEHBP PROVIDERS HAVE HAD TO MARKET THEIR POLICIES, AND THEY STILL HAVE CONSISTENTLY BEATEN THE PRICES AND SOMETIMES THE QUALITY OF SERVICES PROVIDED IN THE PRIVATE SECTOR.

THE FACT IS THAT IN ORDER TO SELL LTC POLICIES TO MANY EMPLOYEES, ESPECIALLY THOSE WHO ARE YOUNGER,(AND WHO IN GENERAL BELIEVE THERE ARE BETTER AND MORE PRESSING THINGS TO SPEND THEIR MONEY ON), MARKETING AND WIDESPREAD PUBLICITY WILL BE A NECESSITY. IN ADDITION, PROVIDING ALTERNATIVES SUCH AS UNIVERSAL LIFE INSURANCE LINKED WITH LONG TERM CARE, AS WELL AS OTHER OPTIONS , WILL INCREASE THE LEVEL OF DISCUSSION AMONG EMPLOYEES, AND WILL RESULT IN AN EDUCATED EMPLOYEE POPULATION WHICH CAN MAKE INFORMED CHOICES.

WE BELIEVE THAT OPM PLAYS A VITAL ROLE IN PROVIDING BENEFIT PROGRAMS TO FEDERAL EMPLOYEES AND RETIREES. WE ALSO BELIEVE THAT THE FEHBP PROGRAM HAS PROVEN TO BE THE MODEL WHICH BEST SERVES THE INTERESTS OF EMPLOYEES AS WELL AS THE PRIVATE SECTOR PROVIDERS OF THE BENEFITS. MOST PRIVATE COMPANIES WOULD BE DELIGHTED TO HAVE A MONOPOLY ON PROVIDING LIFE AND LONG TERM CARE INSURANCE TO SUCH A HUGE MARKET,. BUT HISTORY HAS PROVEN THAT MONOPOLIES (EVEN THOSE PROVIDED BY GOVERNMENT) CAN INEVITABLY LEAD TO HIGHER COSTS AND REDUCED LEVELS OF SERVICE BECAUSE THE INCENTIVES TO BE EFFICIENT AND INNOVATIVE ARE JUST NOT THERE.

WE THEREFORE SUPPORT THE MAXIMUM CHOICE IN PROGRAMS AND CARRIERS FOR FEDERAL EMPLOYEE BENEFIT PROGRAMS. WITH OPM OVERSIGHT TO ENSURE QUALIFIED AND FINANCIALLY SOUND PROVIDERS, AND THE OPERATION OF THE COMPETITIVE MARKETPLACE, WE BELIEVE FEDERAL EMPLOYEES AND RETIREES WILL ENJOY THE BEST CHOICES AND THE MOST COMPETITIVE PRICES AVAILABLE IN LIFE INSURANCE AND LONG TERM CARE

INSURANCE PRODUCTS. FROM THERE, EMPLOYEES SHOULD BE FREE TO DO AS THEY, IN THEIR INDIVIDUAL WISDOM, CHOOSE.

THANK YOU FOR THE OPPORTUNITY TO TESTIFY. I WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MIGHT HAVE.

Mrs. MORELLA. Thank you, Mr. Shaw. You actually did—as Mr. Nesterczuk noted, beat the clock. Because we picked up on a few of your comments that are in your testimony in talking to Mr. Flynn.

I guess I could start off with Mr. Bartholomew. You say that 76 percent of all large employers offer universal or variable universal life insurance, mostly at the employees' expense, and your products seem to be growing pretty quickly. I just wonder, as we look at the Federal Government, what features of your policies make them attractive to employees?

Mr. BARTHOLOMEW. The feature that I guess is probably the predominant feature with universal life is that it's a contract that has cash value. It also has a feature that has a requirement that the premium can be altered, the contribution be altered by the employee so all they have to do is meet the minimum insurance costs, that the premium can be flexible. It doesn't have to be scheduled like it would be in the traditional group term life insurance contract.

But I think the primary attraction, from what the researchers tell me, is the fact that it has a value that exists beyond the straight insurance protection of group term life insurance and is portable, so that it would be taken with the employee after they leave.

Mrs. MORELLA. The portability is something that we feel is very important also.

Does it appeal to certain segments of employees, do you find? Can you characterize any groups to which it has a particular appeal?

Mr. BARTHOLOMEW. Not that I know of, no.

Mrs. MORELLA. We appreciate learning more about it.

I want to now go on to Mr. New. Because of so many things that are offered under the AD&D, I'm curious about what the premiums are.

Mr. NEW. That's a great question. Typically, the premiums or cost of insurance are based on the size of the group, and/or the type of industry. With some of the large customers that UnumProvident insures today, I would say for groups over 50,000, cost of insurance can be real attractive to the employee and include the extra features like paralysis, the seat belt benefit, as well as travel assistance services.

It would be hard for me to give you what a true cost structure could be. However, if an employee or insured wanted to purchase $100,000 of insurance, the rates may be $3 a month, which would include all those extra features mentioned above. If someone wanted to include their family, it may be $3.50 a month.

Mrs. MORELLA. You also mentioned that the participation rate varies from like 30 percent to 50 percent. Why is there any disparity?

Mr. NEW. Participation rates tend to increase based on the support we can get from the employer. The more they can communicate the value of it up front, the better our participation tends to be. Also certain industries show a higher participation than others. Occupational hazards can play a part in that.

Mrs. MORELLA. Have you ever heard the concept that many employers might refrain from AD&D because too many options are offered?

Mr. NEW. We hear that quite a bit today. What we try to position from UnumProvident's standpoint is look at an industry and the company and identify what enhancements or features make the most sense for that industry. Instead of offering 15 to 20 enhancements or features, we try and identify the 5 or 6 that really make sense to the employee population that are purchasing the product.

Mrs. MORELLA. And the reason you can keep your premium low is because you look at a vast pool, is that one of the reasons?

Mr. NEW. Typically, rates are based on the size of the group. The larger the group, the better your spread of risk is.

Mrs. MORELLA. And the age of the employees that are part of that group?

Mr. NEW. I'm sorry?

Mrs. MORELLA. And the age of those who are part of that group, is that a consideration in negotiating premiums?

Mr. NEW. Typically, if I understand your question, we do not——

Mrs. MORELLA. The younger people who are accident prone or——

Mr. NEW. That is a statistic that is proven, that people who are younger are higher risk for accidents.

For voluntary AD&D, we do not rate by age. We don't have age-banded rates, which is a little bit different than a voluntary group life product. It's one composite rate.

Mrs. MORELLA. I want to thank you, Mr. New.

Mr. Shaw, you had the benefit or you were here for Mr. Flynn's comments with regard to your concept of the universal life insurance with the long-term care rider. Would you like to make any comments in response to that?

Mr. SHAW. I think one of the things that struck me about his comment was that long-term care insurance is so very complicated. And therefore employees, if they had too many choices, might get confused.

We think that FEGLI health benefits, it's about as complicated as you can get when you're taking care of your family's health, and yet every year the employees manage to make rational decisions about which health benefit program they're going to participate in. I don't see any reason why employees could not make a rational decision about which long-term care program that they would want to participate in.

I know that the FEGLI program is a good program. And it has a lot of people that participate. There are a lot of premiums collected; I don't know how the investment dollar is returned or spent. But the fact of the matter is that the rates are substantially higher for a substantial number of employees under the FEGLI program than they can get in the private sector.

I've not only heard it, I've seen it. I remember one e-mail vividly that we received from a manager who said, "This is the first time I ever realized that I could look around and find a better rate. I assumed I was getting the best rate. And I saved 40 percent on my life insurance coverage premiums for my family and myself."

And it was a tremendous pay raise. I mean, these people have not been getting very many pay raises, and for senior executives they, like Congress, have had one pay raise in the last 5 years. And how they spend their dollars is very important to them. FEGLI is more expensive for employees who can get insurance elsewhere. Now, the government has made the determination that they're going to cover everybody and that's fine, but employees have a choice. And once they find out they have a choice, they look at that choice, and many of them leave the FEGLI program.

Something's not working. It may be the most efficient, the most effective, the most wonderful program in the world. But it costs more. Something's not working. I don't know what it is.

The FEHB program works and there is choice. And the one thing I take away from our SEA board meetings is, these people want choices. They want long-term care insurance. Most of the SES's and the other executives that we represent—and many of them are managers, because we're also general counsel to the Federal Managers Association—want choices. They are the prime target for long-term care insurance. They don't want to have to buy a product for which they pay premiums for life which they may never use if they're never needed, if they have other options.

If long-term care is tied to a universal life insurance program, there are options. The premium dollars can also provide a life insurance benefit to their family, and it's a pool of money from which they can borrow against for kids' education, and for other purposes. It's a choice they would like to have, an option they'd like to have.

Not that it's the right thing for everybody, clearly it is not. But why shouldn't the government offer that option to them rather than "one size fits all"? That's their view.

Mrs. MORELLA. Thank you very much, Mr. Shaw. I know that OPM is listening to what you have to say, too, as they pull together whatever alternatives are necessary.

Thank you, Mr. Chairman.

Mr. SCARBOROUGH [presiding]. Thank you, Mrs. Morella.

Mr. Cummings.

Mr. CUMMINGS. Mr. Shaw, I'm just curious about something here. You know, in the FEHBP program, you've got quite a few carriers, 90 percent of them go for Blue Cross and Blue Shield. So the argument of choice to me sort of goes down the tube. They're not really making a choice. I mean, in other words, it's more like—I'm sorry, 60 percent. But that's still a sizable number. But I was just curious. Do you want to comment on that?

Mr. SHAW. Well, if it were 90 percent I would have been surprised, but 60 percent sounds more reasonable. But why shouldn't they have that choice, Congressman? Because 60 percent think Blue Cross/Blue Shield is good enough for them, does that mean that the other 40 percent have to have it?

Mr. CUMMINGS. I'm not saying it shouldn't; I'm just saying it goes to the argument of choice. In other words, are people really—I mean, when you've got quite a few more companies that are offering and you've got 60 percent of them and—I mean, 90 percent makes the argument even stronger, I must concede, but 60 percent of them taking Blue Cross and Blue Shield, it just seems like these are folks who have decided choice is not—I mean, that's it. So you take that 60 percent and they probably do this every year, and—but anyway——

Mr. SHAW. Well, most people, once they get into a particular program, tend not to change. Many Federal retirees, for example, keep High Option Blue Cross/Blue Shield because they can afford it even it provides benefits they would never use and don't need. But they think, it's the most expensive; therefore, it's got the most benefits in it; therefore, they want it.

The fact of the matter is, if they shopped, they don't necessarily need that. But that's still a choice they make, and at some point, if they do read something and become educated about it and decide to get something else—you know, that's what the great American marketplace is about.

Mr. CUMMINGS. As you were talking, I was thinking that if you were talking about how much more expensive the program is now, the FEGLI program——

Mr. SHAW. FEGLI program, yes, sir.

Mr. CUMMINGS. And MetLife, that's basically what we're talking about.

Mr. SHAW. I am not—I only know the facts; I don't know the deals within which——

Mr. CUMMINGS. But you heard the testimony. You were just sitting here with me. We heard what Mr. Flynn said.

Mr. SHAW. I understand. That means something's wrong, Congressman, when what you are doing is—there is no profit in it, and if the administrative costs and your claims rate is so much higher than another person's claims rate, then you're doing something wrong. Either you're not investing your money right, that's a possibility; or you are attracting a different group of people than the other person is, that's a possibility.

And if so, then shouldn't you look at that? Shouldn't we say, rather than just keep raising the premiums and driving more and more people out, like is happening, shouldn't we look at that and say, what are we doing wrong here, instead of saying, this is the only and best program the good Lord could make for Federal employees?

We don't agree with it, because our people are leaving the FEGLI program and are buying products in the private marketplace. And that is causing the FEGLI program to increase in cost. Because the better-risk people leave. And they do that because they can get cheaper premiums.

Mr. CUMMINGS. That leads me to the question that I've been just dying to ask you.

What happens—suppose 90 percent of the FEGLI people went into your program. What would happen? Just random, 90 percent?

Mr. SHAW. I don't have any idea, Congressman.

Mr. CUMMINGS. That's what bothers me about your argument—go ahead, I'm sorry.

Mr. SHAW. No, excuse me. I'm sorry. I'm not sure what program we're talking about.

Mr. CUMMINGS. Well, you say that people can get this kind of insurance, the insurance cheaper; that's been your argument.

Mr. SHAW. No, I don't know that. Oh, I'm sorry. We're talking life insurance here. I'm saying that some people are getting it cheaper from the private sector than what they have to pay for the FEGLI program.

Could the private sector absorb all the people that are in the FEGLI program who want to go to the private sector? I'm sure they could.

Mr. CUMMINGS. But I'm saying—let's say that there was another, let's say, Jones Insurance Co., insurance—they're over here and basically we've got MetLife over here that's handling the FEGLI program right now, OK? I don't want to get into it all, but just want to make this distinction.

I think it's kind of unfair to say that—I mean, you heard the arguments of Mr. Flynn. He talked about statutorily mandated benefits; he talked about, of course, the claims; he talked about a number of things.

But one of the things he talked about was the population, the population that they have in the Federal Government. And I think it—you know, I'm Jones Insurance Co., and I've got 10 other insurance companies over here, and I've got MetLife over here, and MetLife, then what happens is that the—those 10 insurance companies over here are then picking off my best people out of MetLife. Then something's got to give.

Mr. SHAW. Well, MetLife has got to figure out a way to compete, because MetLife is not competing now. But if we were talking about MetLife—but we're not talking about MetLife, we're talking about a statutorily mandated program—maybe the statute needs to be changed. Maybe something needs to be done to make this FEGLI program competitive. You know, what's going to drive that, Congressman, is if you've got more than one option and it's part of the FEGLI program. When the program that's there that is high priced, it is either going to have to compete or somebody else is going to eat their lunch. So we have no competition, so why compete? Why change? We've got it.

Mr. CUMMINGS. So maybe—just hang with me now.

Mr. SHAW. Yes, sir.

Mr. CUMMINGS. If I'm one of the companies over here and I'm constantly picking off the MetLife people, not only am I, as you said, taking some of the better-risk folk, but I'm also only taking a certain number of people. You follow what I'm saying? In other words, if I had a more random coming from MetLife and I was just one of these companies and I was taking all of these people from MetLife, you're saying that because MetLife's package may be a Cadillac package and may be over here, we have more of a—I guess—what's the Pinto—a Pinto situation over here, that it doesn't really matter. Is that it?

Mr. SHAW. Well, no, I don't think I am. The reason is because, in that case, the benefits that are over here are better than what is being offered in the FEGLI program.

Now, there is no question but what the FEGLI program has, because of the way—I mean, well, let me back up one step.

When companies, life insurance companies, go in and sell a program to a new company, generally they insure everyone that's in that company. In the past, the Federal Government had been a little bit different because people tend to stay in the Federal Government for an entire career, and in a lot of private sector companies there is a lot more turnover. We think that's changing, there is more turnover now in government, and I think there will be increased turnover. So portability becomes more and more important to these people who want to take this group life insurance with them when they go because they may become uninsurable.

Whereas now there is a much older population in the government than before, so if you can't get insurance anywhere else, you're not going to leave anyway. So you've got a group of people who are in there that you may have to subsidize somehow, the government may have to be subsidizing, because they can't get insurance anywhere else. And that's fine. The reason that the other people are leaving, the healthier ones, is because they don't want to provide that subsidy from their pockets. So they're not going to.

If we had options that would help retain those healthier people in the current program—and this is my fear for long-term care, Congressman, too, because if we've only got one-size-fits-all and you're going to keep, without competition, the group in that long-term care program that are the sickest, that aren't able to get coverage anywhere else. The people that can get it better and cheaper elsewhere are going to gravitate away. So you're going to have a group without options that is going to stay in, and long-term care premiums are going to go up and up and up for Federal employees. It's inevitable because the private sector is going to compete for the people that are healthier.

If you have all the options within the umbrella of the FEGLI life insurance or the long-term care insurance program, then people won't go away. I mean, the employee health benefits program has worked for exactly that reason. If people want something cheaper, they go get a cheaper one because they're younger, they're healthier. As they get older or get a disabled child or whatever the case may be, they change to Blue Cross/Blue Shield and the premiums go up. But people make those choices. And yet we're keeping them all in that program because it's a lot cheaper than going out and buying an individual policy someplace else.

And FEHBP has worked, in our view, because of competition. Some companies have been driven out of FEHBP because they have not been able to compete. Aetna comes to mind immediately. But competition is a healthy thing, in our view, and options are what our membership wants.

Mr. CUMMINGS. You hope when you throw in that factor of people who are uninsurable, that's a key factor because—and those are your older folk; I mean, not necessarily, but——

Mr. SHAW. Right.

Mr. CUMMINGS [continuing]. Generally that's who you're talking about, so they're like a captured audience. I mean, they've got to be there pretty much because they can't go anywhere else.

Mr. SHAW. But competition has still—even with that kind of a heavily weighted population in the fleeing health benefits program because there are a lot of retirees in it—kept those rates low enough that there isn't anybody in the private sector that can compete even for the healthy group. I mean, they just can't.

And that competition has worked; all the retirees that stay in the FEHBP program are doing fine. And they have the option every year to change if they want to, too. And many of them, as I said, keep high option and are overinsured for more than they need. But that's OK.

Mr. CUMMINGS. This may be an unfair question, but I'm just curious when you talk about maybe we need to look at our package, what kinds of things would we be looking at? Are you following me?

Mr. SHAW. Yes, sir. I am not enough of a life insurance expert to say. In fact, I'm not a life insurance expert of any kind. So I can't say.

One example might be—just something that comes to mind—you may want to look at where the government subsidy part of the FEGLI program goes. The government subsidy part of the FEGLI program might go more to the people who can't leave the program because of their health, don't have options, to keep their premium level down; and for the others, the premiums will be beased on competition for the rest of them because they have options and the companies are going to have to compete for them. That's off the top of my head. I haven't even thought of it before.

Maybe that's how you manage to take care of the group that is most at risk and can't go anyplace else versus the others who can leave and go to the private sector, and get better rates. If they can go to the private sector and get good rates, then they ought to be able to get the same kind of rates in the FEGLI program if you set up a separate risk pool.

Mr. CUMMINGS. I have nothing else.

Mr. SCARBOROUGH. Thank you, Mr. Cummings. And I want to followup and underline what you said, Mr. Shaw, regarding MetLife not being attacked and not being suspect. I mean, we have to turn the fingers back toward ourselves; they are doing what we provide them by statute. Is this correct?

Mr. SHAW. That's right.

Mr. SCARBOROUGH. I wanted to ask you, and I got into an exchange with Mr. Flynn right before I had to leave for another committee and it said that, you know, one of complaints I heard was that MetLife was able to get $1.6 billion a year, and they were able to hold this money and collect a great deal of interest over 20 years or whatever, which again is no problem to me if they do that. We were told, though, by Mr. Flynn that that's not how this system works; that it's money in, money out.

Let me ask you, Mr. Bartholomew, if that's the case, and I suspect it is, it seems to me that that causes a problem for MetLife and the government also because is it not true that the way you're able to pay your life insurance benefits is a combination of premiums and earnings that you make by being able to hold money and draw interest. And the way we're doing it right now with the Federal Government and MetLife is simply getting the money in, taking the money out; is that correct?

Mr. BARTHOLOMEW. That's right. That's the way life insurance companies make their living is by receiving premiums and investing them and setting up the appropriate reserves to pay the benefits that they have promised under the contract.

Mr. SCARBOROUGH. Would you be able to be competitive as a life insurance company if you were not able to set aside this money?

Mr. BARTHOLOMEW. You probably wouldn't be able to do business.

Mr. SCARBOROUGH. You wouldn't be able to survive very long, which is, of course, the glory of being in the Federal Government—defy the laws of business, which we do regularly.

Let me ask you one of the things we're having regarding long-term health care is whether we have a single provider or whether we have multiple providers. That's a question that obviously we're asking right here. We've been informed that because of the size of our Federal Government work force that no single carrier is going to be able to carry the risk of insuring it. Do you believe that a single carrier can provide group universal or group variable and universal insurance to the Federal work force?

Mr. BARTHOLOMEW. Do I think they could?

Mr. SCARBOROUGH. Yes.

Mr. BARTHOLOMEW. Yes, I do.

Mr. SCARBOROUGH. You do. OK.

Let me ask you, Mr. New, you testified that employees actively at work are generally eligible for AD&D insurance, but retirees usually are not unless there is a special agreement.

Why is it that retirees are generally excluded?

Mr. NEW. I can only say, by experience, that typically just the active employees of the group or of the customer are eligible for AD&D insurance. However, carriers are trying to address the issues around portability when it comes to individuals that want to continue coverage once they've had it in place.

I can only speak on behalf of UnumProvident. We listened to our customers and we are now offering true portability, which will allow an employee who retires the ability to continue coverage at the same group rates.

Mr. SCARBOROUGH. So that's not exclusively an employer decision?

Mr. NEW. It starts out at the employer level. The employer makes a decision when the contract is purchased if they want to extend portability to their employees.

Mr. SCARBOROUGH. If the retirees are covered by special agreement, are they put in a separate risk pool for rating purposes?

Mr. NEW. I would say if you were going to look at the Federal Government employees, and you're going to have a separate classification for retirees, I would say, yes, that's a safe bet.

Mr. SCARBOROUGH. Let me ask you this, Mr. Shaw, I have been advised that the Senior Executive Association already offers its members the opportunity to purchase long-term care insurance from a variety of well-known companies at fairly attractive discounts.

How many members does the SEA have?

Mr. SHAW. About 3,600, I believe.

Mr. SCARBOROUGH. Would you describe how this program works and how you can get such attractive premiums while retaining a fairly wide range of choices?

Mr. SHAW. Congressman, what we do is ask insurance companies to offer to our members at a discount and they do that. They offer it at a discount between 10 and 20 percent, because they are given the opportunity to market to this group that is sponsored by SEA, or SEA has looked at the company and found that it's financially sound, et cetera, and we get those kind of discounts.

I bought long-term care insurance about 2 years ago from the United Services Automobile Association, which is an insurance company which I went in when I was an officer in the military, and only officers at that time could get in it, and I got a 20 percent discount. And USAA is getting a piece. SEA is not getting a piece, but USAA gets a piece of the policy premium for itself for placing the insurance. And they have a number of companies that participate that they have to look at your application, and give them the best premium rate they can give them. And they typically offer 20 percent discounts.

Mr. SCARBOROUGH. OK.

Mr. SHAW. They didn't have to market to me because I went to USAA because I knew them to be a good organization. But there are a platform of companies, they call them, where they all get to look at the application from an underwriting standpoint and make a rate offer; and I get the best rate offer from whatever company I choose in the group.

Mr. SCARBOROUGH. Does your organization plan to extend the sort of program to group universal or group variable universal life insurance?

Mr. SHAW. The group universal life insurance or variable universal—whichever, fixed or variable—with a long-term care program is available through one of the organizations that does advertise through SEA, I think it's underwritten by First Penn Life. And I don't know how many have bought it or how many have not, but it's an option that's available to them.

Mr. SCARBOROUGH. So your conclusion would be—I think it's safe to say that the Federal Government could obtain favorable rates on both long-term care insurance and on these new life insurance products while offering the employees an opportunity to shop among competing carriers?

Mr. SHAW. Yes, sir. And if OPM needs to know how it works, they should go talk to the American Automobile Association, the AARP, the United Services Automobile Association, et cetera, who routinely get rate reductions for their members.

Mr. SCARBOROUGH. OK. Do either of you two gentlemen disagree with this conclusion?

Mr. BARTHOLOMEW. No.

Mr. NEW. No.

Mr. SCARBOROUGH. OK. You can if you want. OK. All right.

Mr. Allen.

Mr. ALLEN. Thank you, Mr. Chairman. I regret missing part of this hearing, but I wanted to say I was interested, Mr. Shaw, to hear your comments about what Ed Flynn had said. So I am going to try to go back and recreate this, and eventually I have a few comments to make; then I will come back to Mr. New for a moment.

Ed Flynn said that long-term care is complicated, there are lots of choices. Your response was that health insurance is complicated and employees somehow make rational decisions on that. I confess I'm not persuaded that people make rational decisions about their health insurance. I know that for me, I was given, you know, a certain number of choices and they all came with thick booklets. So I called someone in member services and I said, what do most people do? She said most people sign up for the standard Blue Cross plan in their area. So I signed up for the standard Blue Cross plan in my area. But I'm healthy.

I mean, I can sort through different booklets about health care insurance and it doesn't mean much to me. I'm healthy. That's the difference. Knock on wood. When you get to long-term care insurance, all of the options you're provided assume a set of circumstances that, by and large, most people have no way of knowing. You don't know what kind of coverage you're going to need, how long you're going to need it. You just have no way. It's just a shot in the dark, I think, for most people who are healthy, who are, you know, your age, my age, buying this sort of coverage.

I think part of what, you know, we're really trying to do here is to figure out how to drive down the costs for members of the work force when we provide an additional benefit, because after all we're not funding it, I mean, the discount is all they get. And so I guess that puts me in the 60 percent who signed up for Blue Cross/Blue Shield.

I tend to think that people stay in a program because it's too hard to change. At least for some of us, it's the same way with our telephone companies. There may be competition, we may have the option to change, but it's not something we want to do. I think there is a difference between, or that it is a false choice. On the one hand, we don't want—there is one-size-fits-all and on the other hand, there is allowing the members of the group a very wide range of choices among competing companies, letting all companies in or most companies in.

I just don't think those are the two choices. And there has got to be something that is more effective.

Now, Mr. Shaw, we heard from you on that topic. I want to go to Mr. New. And I would say this, we've talked about long-term care insurance today and how we deal with that. I didn't understand that was a topic for today. And there might have been someone else from Mr. New's company if he had realized that we were going to get into long-term care. But with respect to AD&D, let's deal with this context of AD&D.

What kind of structure makes sense to you, Mr. New? A structure where the Federal Government, like many employers, is basically picking from either one—is getting the best deal it can from one company, and there is competition to be the provider for that company; or you're picking—you know, you're allowing a consortium to come; in or you're letting anyone come in.

I mean, should this be—where do you come out in this debate? On the one side, one company picked after a competitive process; on the other side, you know, any insurance company that wants to come into this market and offer AD&D or something in the middle. Where do you come in?

Mr. NEW. I think that's a large question to answer. I'll try to answer it the best way that I can.

I would think that when you look at any competitive situation, you want to do your due diligence. You want to make sure that you're looking at the marketplace to make sure that you're getting the best product for your employees. When it comes to the Federal employees, with the large population, you can go at it a couple of different ways. It really comes down to a couple of different factors.

One, the carriers who are working in this marketplace and have worked in this marketplace for a long time know the marketplace well. They usually have the product behind what they want to offer to the employees.

It also comes down to what type of administrative capabilities the employer will need. There is an enrollment process that would have to be applied to this, and you will have to customize to the customer to make sure that you can adapt to their abilities from an administrative standpoint. You can probably consider voluntary AD&D compared to other products like long-term care. There is a complexity on the one hand for, I believe, long-term care versus voluntary AD&D. You can probably do it with a few carriers.

Mr. ALLEN. Do which?

Mr. NEW. Voluntary AD&D. If everything aligns from the customization of the program to the customization of the enrollment process, there is a strong possibility that one insurance carrier can adapt and fill the need for the Federal employees.

Mr. ALLEN. Mr. Shaw.

Mr. SHAW. I really would like to respond.

Mr. ALLEN. I was certainly not going to prevent you from speaking.

Mr. SHAW. I appreciate that.

When you talk about the Federal Employees Health Benefits Program, Congressman, there are any number of really good publications that are put out that compare every program that is offered and allow people to select depending upon their circumstances. There are some that are better for families, some that are better for retirees, et cetera. So even though there are a lot of programs, employees can very easily, for a very small investment, of about $5 for the Washington Checkbook publication, compare these plans each year.

Second, when you talked about most companies or all companies participate, we don't advocate that. There are two programs in the government where companies get to compete to be part of the program. One is when the General Services Administration puts out a proposal, a contract for bid and people can compete to be listed—to be listed on the Federal Supply Service Schedule, which means they have to be financially qualified and they have to be checked out by GSA to make sure that they are capable of providing a quality program, and then they have to offer competitive rates.

What it does is it gives them a license to sell but only the best get on that list—get that license. And those companies that get on that then go sell their product to the Federal Government at what are the most competitive rates that are available. That's one way that long-term care could be done.

The other is like the FEHBP program where you pick—OPM provides oversight, and would have to decide whether or not these were quality companies, and were the best ones to provide the products. But there would be a variety of products that people could select from. And I'm sure that there would be a publication like the Washington Checkbook that would spring up overnight to evaluate these products, these long-term care products, for employees.

Mr. ALLEN. You mentioned that Senior Executive Association is 3,600 members and you ask companies to provide long-term care as a——

Mr. SHAW. We have not asked any. We have been approached by a variety of companies who have offered to provide it at a discount to our members.

Mr. ALLEN. Is there some mechanism by which they can do that through the association?

Mr. SHAW. They do that through their advertising through the association's newsletter and magazine.

Mr. ALLEN. Do you have any idea how many of your members have signed up for long-term?

Mr. SHAW. No, I do not. I'm sorry. I can get that information, but I do not know now.

Mr. ALLEN. I would be interested. I think the——

Mr. SHAW. It's very new.

Mr. ALLEN [continuing]. Made before, which is that long-term care insurance needs to be sold.

Mr. SHAW. Absolutely. And this is very new. That's why this has all occurred within the last year or so, because people have started to become more and more aware of the need for long-term care insurance.

Mr. ALLEN. If I could come back to you, Mr. New, and maybe Mr. Bartholomew, is AD&D insurance readily acceptable and affordable outside of the group? I mean, do you sell to individuals? Is there a market there to buy AD&D at a reasonable price, or is it really tied mostly to—is it sold mostly through employers?

Mr. NEW. Typically, it's sold through employers; however, everyone in this room probably receives a mailing from their credit card, maybe their bank offering high limit AD&D protection. The rates tend to be much higher because there are a lot of administrative fees applied to it from the bank side.

But, yes, it could be purchased by an individual through their bank or credit card company. But typically the group insurance environment is the easiest way to purchase it, as well as the most affordable.

Mr. ALLEN. Thank you.

Thank you, Mr. Chairman.

Mr. SCARBOROUGH. Thank you, Mr. Allen.

I want to thank you gentlemen for coming and testifying today. I think this is a continuation of a very important process that we provide life insurance to Federal employees and give them the best deal that they can get at the most affordable price.

I would like to conclude by just saying for the record, I think we had a correction. What was the percentage? OK.

Blue Cross, just in case it was going to keep anybody awake tonight, Blue Cross's market share for Federal employees is 44 percent.

With that, we are adjourned.

[Whereupon, at 1 p.m., the subcommittee was adjourned.]

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